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ABSTRACT

This report delineates five governance strategies in U.S. corporations that have emerged over the last 20 years: (1) reform of corporate boards, which includes the role of boards and implementation approaches; (2) organizational improvement, which details employee involvement, total quality management, and reengineering; (3) developing team-based organizations and types of teams; (4) establishing independent sub-units, such as "Greenfield Sites," and co-governance; and (5) creating organization networks, such as process interdependence and resource coalitions. As each strategy is addressed, the role of key stakeholder groups is discussed, the underlying values and goals associated with the strategy are identified, and the change process involved in implementing the strategy is reviewed. The changing nature of accountability, human-resource requirements, and particular challenges faced in implementing the strategy also are discussed. Case examples, including the results obtained upon implementation of each strategy, follow. The article then describes future trends in private-sector governance, such as corporate boards, different kinds of governance systems, team-based structures, and network organizations. A conclusion offers some analogies to public education, such as board reform, organizational improvement, team-based structures and mini-business units, independent sub-units, and networks. Two appendices provide a summary of governance strategies, along with some examples. (RJM)

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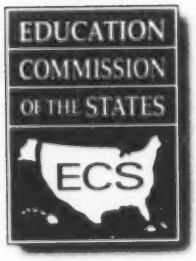

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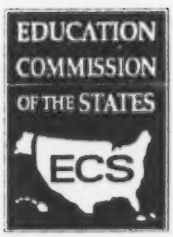

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EXECUTIVE SUMMARY

In the last two decades, substantial changes have occurred in U.S. private-sector organizations. Corporations have reduced layers of management and adopted a variety of practices associated with power sharing, quality improvement and information technology. Research indicates many of the changes that have occurred in organizations involve emergence of new governance strategies — the means of aligning an organization's actions with its mission. Governance occurs at all levels within private companies. The strategies that have emerged in the last two decades fall on a spectrum from hierarchical, top-down control to the use of market mechanisms as a basis for control. A common theme across these strategies is evolution of new stakeholder roles.

This report delineates five governance strategies that have emerged: (1) reform of corporate boards, (2) organization improvement, (3) developing team-based organizations, (4) establishing independent sub-units and (5) creating organization networks. As each strategy is addressed, the role of key stakeholder groups is discussed, the underlying values and goals associated with the strategy are identified, and the change process involved in implementing the strategy is reviewed. The changing nature of accountability, human resource requirements and particular challenges faced in implementing each governance strategy also are addressed. Case examples, including the results obtained upon implementation of each strategy, follow. The concluding sections speculate about future trends in private-sector governance and draw analogies between changes that have occurred in the private sector with those that may occur in education.

Reform of Corporate Boards

The body with ultimate legal responsibility for governing firms is the corporate board. In the United States, a corporate board's primary obligation is to ensure that management acts in the best interests of the company owners. Other traditional roles include strategic direction and advice, oversight of strategy implementation, senior management development and evaluation, monitoring of the corporation's legal and ethical performance, and crisis management.

In recent years, large firms have introduced major changes in corporate governance that have significantly increased the power of boards. One clear sign of this shift from more passive to active boards is the firings of CEOs at many of America's most high-profile companies (General Motors, IBM, American Express, Apple Computers, Compaq, Delta Airlines, etc.) Other major changes have included aligning interests of directors and owners, increasing manager and director accountability, and building board capabilities.

Introducing more effective corporate board practices can have a strong impact on performance. For example, companies where the board benchmarks the firm against top performers in comparable industries have more than double the stock market return and a much higher return on investment than companies where directors do not receive such information. Reforming corporate boards may involve separation of management and board roles, employee involvement on boards, crisis management by boards and board evaluation of the CEO. Implementing this governance strategy can potentially increase shareholder value, increase sales and earnings, and align interests of directors and owners.

Organizational Improvement

A second category of governance strategies appeared when the mass acceptance of the traditional bureaucratic paradigm began to break down in the 1980s. Three approaches have received the most

attention: employee involvement (EI), total quality management (TQM) and process reengineering. All three have been adopted, at least to a limited degree, by a wide range of major U.S. corporations.

The most important overall focus in employee involvement concerns locating decisions as low as possible in the organization. Jobs at the lowest level are designed so that individuals or teams do a complete part of an organization's work process. In addition, individuals or teams need to be given the power, information and knowledge they need to work autonomously.

In contrast, total quality management is best viewed as a management philosophy that combines the techniques of statistical process control and group problem-solving processes with values of quality and continuous improvement. The definition of what constitutes quality in an organization's functions and activities is a major focus. Customer reactions are regarded as the best measure of quality.

Finally, reengineering is aimed at designing processes to optimize the value delivered to the customer. The change process is almost always top down, and it focuses on using information technology to improve the coordination across units or areas of the organization. As a result, reengineering is often associated with employee downsizing in which the number of employees in an organization is reduced.

High usage of EI, TQM and reengineering consistently is associated with high performance, particularly for EI and reengineering. Analyses of the financial impact support the favorable ratings received when firms were asked to evaluate the success of their EI, TQM and reengineering programs and practices. By adopting these programs on a widespread basis, firms can gain a significant competitive advantage.

Developing Team-Based Structures

As a third strategy, team-based structures have emerged in response to competitive pressures and the change programs adopted to respond to these pressures. Indeed, the use of teams for various purposes is advocated by all of the three change models discussed above. Teams are collections of individuals who are interdependent in their tasks and jointly responsible for shared outcomes. They represent a form of governance that retains a managerial coordinating structure but enables a broader set of constituents to participate in making organizational decisions.

Four types of teams can be identified in organizations today. They include: (1) parallel teams, (2) project teams, (3) work teams and (4) management teams. Parallel teams bring together people from different work units or jobs to perform tasks or functions that cannot be easily accomplished within the organization's formal structure. Project teams are time-limited and produce one-time outputs such as a new product or service, a new information system or design of a new plant. Workers from different functional units typically compose the project team. Work teams are continuing units responsible for producing products or providing services. Unlike the other team types, they perform regular, ongoing work. Team membership is typically stable. Management teams coordinate and provide direction to the sub-units under their jurisdiction, laterally integrating independent sub-units across key business processes.

Teams have been associated with higher levels of productivity, quality, customer satisfaction, safety, job satisfaction and organizational commitment. It should be noted, however, that many performance benefits are achieved with self-managing work teams that have considerable control over their own structure and process. The research on self-managing work teams suggests clear performance benefits in terms of reduced costs, increased quality and employee satisfaction. The performance results have been mixed in terms of behavioral outcomes, such as absenteeism, turnover and safety.

Establishing Independent Sub-Units

Many private-sector organizations have found that limited decentralization is not sufficient as an organizational governance strategy to foster discontinuous innovation and/or to enable effectiveness of units performing different kinds of work from the mainstream organization. These organizations have found that even when the governance of units is substantially decentralized, units still are constrained in major ways by the corporation's prevailing culture and processes. These real and perceived constraints stifle needed innovation and/or make it tremendously difficult to innovate.

To deal with this reality, organizations have taken a variety of approaches, in effect, to free units from these common expectations in order to foster innovation and/or to enable the development of a new organizational culture that fits with new business approaches. These approaches fall along a continuum from creation of special status units still fully within the overarching governance of the parent organization (i.e., "greenfield" sites) to establishing joint ventures and spin-off organizations that are different legal entities.

"Greenfield" plants can be 30-40% more effective than traditional manufacturing operations. Joint ventures enable firms to combine their technological and creative resources and provide more access to capital as well as greater managerial capabilities. Finally, there is some evidence that firms which engage in partnerships and alliances show higher stock returns than firms that do not.

Creating Network Organizations

A final strategy in the private sector has developed due to extreme market pressure to be world class in all aspects of performance. Most organizations cannot accomplish this internally because of limited resources (money and talent). A new form of organization is emerging, one comprised of many units or nodes in a system. Often each of the nodes is a separate company entity that is, or tries to be, world class in some aspect of the network's business. Some of the network nodes may be located in a number of different company divisions. The simplest depiction of a network organization is a corporation and its set of suppliers to whom it has contracted out portions of its business. Increasingly, however, networks are being laterally integrated so the suppliers are linked to one another and the overall network is informationally linked, process compatible, and engages in joint planning and coordinated operations.

Network organizations are new enough that efforts to measure their impact are just now getting under way. There are, however, many notable examples of companies such as Sun Microsystems and Nike that have grown rapidly into large, successful competitors using the network model. They have experienced substantial benefits by not vertically integrating, but rather by creating a stable network of partners and suppliers. The origin of these benefits seems to lie in the sharing of costs and skills, access to global markets and increased market responsiveness.

Future Trends in Private-Sector Governance

All five of the governance strategies identified above show signs of evolution. Key trends in corporate boards include the internationalization of boards, demands for more stakeholder representation, increased employee ownership and mechanisms to increase managerial accountability. In conjunction with the second strategy (organizational improvement), employee involvement, total quality management and reengineering efforts are evolving to become an integrated package of practices used collaboratively to redesign organizations. As a third strategy, team-based structures are more and more prevalent; in particular, the use of temporary teams is increasing. Teams also are becoming more global and "virtual"

as communication increasingly is electronic as opposed to face-to-face. Finally, network organizations are evolving to include customers as key stakeholders who participate as nodes in the network configuration.

Analogies to Public Education

Public schools face challenges of similar magnitude to those faced in the private sector that have resulted in massive restructuring and accompanying changes in governance. Schools face the need to deal with the social challenges presented by a shifting population and the technical challenges of educating an increasingly diverse group of students for a much more demanding set of requirements for 21st century. Schools have to face the economic challenges of accomplishing this without a large infusion of new funds.

The five governance strategies described in this report have actual or potential analogues in public education. There are, however, contextual differences that constrain the ways in which these approaches can be applied and which approaches are appropriate. Different approaches have been found to fit companies with different strategies and technologies, and the best design and governance approach must be tailored for each firm. Approaches cannot be copied lock, stock and barrel from one setting to another.

Much like corporate boards, boards of education are the key governance mechanism for public school systems that links the schools to their communities. Both district and state boards of education provide an accountability route because they usually are elected officials expected to be responsive to community concerns. Together with school system administrators, the board manages the schools. Analogous to the kind of board reform occurring in the private sector would be a clarification of the roles and responsibilities of the school board and school district management. School boards would assume a clearly defined policy and framework-setting role, while management would be responsible and accountable for the operational decisions required to carry out the policy and strategy. Management also would be enabled to make organizational changes needed to carry out its mission without board interference. More generally, the analogue would be to clarify roles, develop clear accountability systems and develop board and school district management to manage a complex organizational system and strategy in a dynamic environment.

Under the rubric of organizational improvement, public schools might adopt approaches similar to employee involvement, total quality management and reengineering. This route entails little change in the actual governance framework of power and accountability; rather, it means becoming better at managing within current governance approaches. Developing improved management and professional skills, introducing and implementing new technical approaches to education (curricula, tools, methodologies), clarifying goals and objectives, implementing accountability and performance management systems that bolster review and reward processes, and improving communication systems are all possible without changing governance systems.

In the private sector, firms have developed team-based organizations to address turbulent industry environments and rapid change in technological innovation. Facing similar strains, high student mobility rates in some regions have caused great turbulence in schools, disrupting school districts' ability to enact reforms or respond effectively to changing needs. In select regions, teams of elementary, middle and high schools have come together to form school families. These families typically consist of a feeder pattern of elementary schools, one or more middle schools and one high school. By banding together, small families of schools seek to create a vehicle for organizing and focusing energy on education reform in a mutually supportive environment. Enacting these reforms requires that school families build capacity to work together as a team, much like teams in the private sector. Acting as a collective unit to create a stable learning community necessitates new organizational structures, new ways of sharing information and new ways of learning.

Likewise, some school districts already have put in place approaches similar to independent sub-units, such as alternative schools, experimental schools and charter schools. These schools are established to meet the needs of particular groups of students or to establish an innovative model. Charter schools are the most extreme in terms of loosening the governance ties and even moving toward a contracting model. It is rare for school districts to break apart their operations, establish joint ventures or spin off parts of their services, and then reconnect with these new organizations to secure services contractually that once were provided internally. As an example, one could conceive of a school district establishing a joint venture to provide education in the arts or in languages not only to its students as part of the district's offerings, but also to the larger community in nontraditional forms.

Finally, the network approach can be a way for a school district to focus on its core education — providing services while contracting with other firms that specialize in areas such as food service or transportation provision. Some school districts already use such "outsourcing" arrangements. In the core education arenas, one can see the evolution of specialized units shared by different schools that contract with them; in effect, the school puts together a whole set of services through different contractual arrangements.

In a particular region, the network of various providers might be maintained through an education development board, which provides overarching certification, and contracting and planning processes. A community might have different organizations that specialize in science education, arts education, language disorders and so forth. Services could be delivered in the school facility despite being employed by different organizations. A number of art teachers from a specialized contract firm, for example, might come to different schools on different days, providing art services to whole classes or groups of students while teachers of their core subjects get together for planning and instructional design activities.

Schools might provide only a few core services, counseling and planning to make sure students are hooked up with required and elective offerings from members of the other network organizations, and with tracking and certification processes. Services might be offered in a local neighborhood school, in satellite facilities or right in the child's living room through electronic delivery systems. They might be offered in normal school hours or at alternative times.

Conclusion

Many of the approaches in this report might appear foreign to the concept of public schools and school districts. It should be remembered that merely 15 years ago many of these practices, which have become standard in the private sector, were not even on the corporate landscape. They all have been driven by the need to provide high-quality services and products to meet the needs of diverse customers, in a convenient and cost-effective manner. Research indicates there is much to be learned from corporate lessons, leading one to be optimistic about a future in which the strategies developed in the private sector inform and are informed by emerging strategies in the public sector.

INTRODUCTION

In the last two decades of this millennium, researchers and practitioners have witnessed substantial changes in U.S. private-sector organizations. Corporations have reduced layers of management and adopted a variety of practices associated with the sharing of power, quality of goods and services, and information technology. These changes have created a profoundly different work environment for employees, as well as new contractual agreements between employers and employees. In some cases, these changes have led to a more skilled workforce and to extensive opportunities for employees to become more involved in the business. The changes also appear to have led U.S. organizations toward becoming more competitive in the global economy.

Organizational effectiveness and strategic change are increasingly popular topics in the management literature. Proponents argue they are the keys to gaining a competitive advantage in today's highly competitive business environment. Competing views of how organizations most effectively can be managed have characterized the field of management since its inception. Until the 1980s, however, much of the "action" took place in academic journals and inside corporations, so it was not a highly visible public activity. But during the '80s, the situation changed dramatically. Why did major concern with the effectiveness of different management approaches develop?

That answer lies in the growing consensus that an effective approach to management offers corporations a powerful competitive advantage. This consensus is new; prior to the 1980s, most executives, consultants and researchers agreed that while being a well-managed corporation was helpful, it was not the most powerful way to gain a competitive advantage. Instead of competing by coming up with new management innovations, companies competed on the basis of their ability to execute traditional management practices. They generally accepted the bureaucratic, hierarchical organization model and varied simply in some of the methods they used and how well they executed them. It has since come to be understood that form should follow function, and that the best management model and organization design depends on the configuration of activities and tasks required for strategic success and effective accomplishment of mission.

The research conducted during the last two decades at the Center for Effective Organizations indicates many of the changes that have occurred in organizations involve emergence of new governance strategies — the means of aligning an organization's actions with its mission. Governance occurs at all levels within private companies. The governance strategies that have emerged in the last 20 years fall on a spectrum from hierarchical, top-down control to the use of market mechanisms (the forces of competition) as a basis for control. A common theme across these strategies is evolution of new "stakeholder" roles. Using this approach, organizations often are conceptualized as bundles of interest groups, each with different needs, motives and roles. These interest groups frequently are referred to as "stakeholders," because each holds a stake in the organization. Important stakeholders in most private-sector organizations include the following:

- Boards
- Management
- Employees
- Customers

The stakeholder approach is particularly useful in identifying governance alternatives because it allows decisionmakers to consider and incorporate multiple viewpoints simultaneously. This report focuses on the changes in governance processes, including the organizational approaches that facilitate such changes

and enable different stakeholders to influence decisionmaking in new ways. The report also describes a trend toward multi-stakeholder decisionmaking and permeable boundaries between internal and external stakeholders for decisionmaking. For example, increasingly customers participate in the development of firms. Similarly, the interests of corporate boards have evolved to include the strategic planning of the firm.

In the pages that follow, five governance strategies that have emerged in the last two decades are delineated: reform of corporate boards, organization improvement, developing team-based organizations, establishing independent sub-units and creating organization networks. As each strategy is addressed, the role of key groups is discussed, the underlying values and goals associated with the strategy are identified, and the change process involved in implementing the strategy is reviewed. The changing nature of accountability, human resource requirements and particular challenges faced in implementing each governance strategy also are addressed. Case examples, including the results obtained upon implementation of each strategy, are presented. The concluding sections speculate on future trends in private-sector governance, and then draw analogies between changes that have occurred in the private sector and those that may occur in education.

STRATEGY #1: REFORM OF CORPORATE BOARDS

The body with ultimate legal responsibility for governing firms is the corporate board. In the United States, a corporate board's primary obligation is to ensure that management acts in the best interests of the company owners. This is in contrast to some other models of capitalism, such as Germany's, where the board is required to represent the interests of all corporation stakeholders, and employees are assured representation on the supervisory board. Many U.S. states have passed laws requiring boards to take into account the interests of all stakeholders in a company, including employees and the community; these stakeholders, however, typically do not have board representation unless they own a substantial share of the company (as in the case of United Airlines, in which employees bought out the company by purchasing corporate stock).

The Role of Boards

To understand how boards exercise their legal responsibility for governance, it is vital to draw a distinction between the roles of oversight and management. The board is responsible for overseeing the company and appointing its senior leadership, but does not become involved in day-to-day management decisions. These are the responsibility of the chief executive officer (CEO) and his or her team. Rather, the board is meant to advise and agree on a strategy with the management team and then hold the executives accountable for delivering the results. Giles Bateman, chairman of CompUSA, summarized the distinction between management and board roles in a recent article about the board's role in CompUSA's turnaround.[1]

> "The first — and most important lesson — for any outside director is that he or she does not have line management responsibility and cannot be allowed to attempt to manage the company. Ultimately, if the board disagrees with how executive management is running the company, the remedy is to replace management (after strong attempts to counsel and advise), not to try to manage through the executives."

To achieve the difficult task of governing without exercising direct managerial control, effective corporate boards focus on a set of high-level tasks:

Strategic Direction and Advice. Fundamental to the operation of any business is its strategy. Boards are rarely in a position to develop detailed strategy, but they are in an excellent position to provide input and advice on the strategic direction that the CEO and senior management team develop for a corporation. Because of their special relationship with the company, boards can be expert advisors who can be trusted to keep information and plans confidential and who have a strong vested interest in seeing that the plans are successful. They bring opinions, viewpoints, and information to bear on strategic plans that are not always readily available to the members of the corporation's management. Particularly when board members come from different backgrounds and spend their time in different countries, companies, and types of organizations, they can provide a wealth of information about the potential effectiveness of strategies. Because they are not involved in the day-to-day development and execution of the strategy, they can provide a rigorous reality test for proposed strategies and provide an outsider's view of their potential effectiveness. When discussing strategy, boards will typically focus on high stake decisions, such as mergers (in which two companies join to become one) or acquisitions (when one company purchases another) or major capital investments.

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[1] Bateman, G.H. (1996). "Strong Boards: A Prescription for Success." *Retailing Issues Letter*, 8(5): 1-5.

Oversight of Strategy Implementation. Research on organizational effectiveness strongly suggests developing a valid strategy is only the first step in creating an effective organization. Many strategies fail not because they are flawed in concept, but because they are poorly implemented. Thus, boards generally devote a great deal of time to the review of strategy implementation and how financial results compare with planned targets. Often times, board members are CEOs or former CEOs who can draw upon a history of implementation experience. They are also, potentially, in an excellent position to evaluate how effectively strategies are being implemented because of their ability to take a relatively detached look at the performance of the organization. In the case of a failing or failed strategy, they may be in a position to challenge senior management to change strategies or, at the least, change the approaches used to implement the strategy.

Whether boards can distinguish between a strategy that is failing because it is a poor strategy or because it is being poorly implemented depends, however, on the quality and objectivity of the information they receive and how personally committed they are to the senior management team and its strategy. If implementation is a problem, they can give advice on how implementation can be improved. They may also give advice on how the organization is designed (the structure of units) and how change can occur so as to help with strategy implementation.

Senior Management Development and Evaluation. Because environments are changing so rapidly and consequently performance demands facing organizations are changing with equal speed, boards need to be proactive with respect to stimulating change within organizations. This is perhaps most apparent in the case of underperforming CEOs and senior management teams. Boards that simply wait for the retirement or succession of a new CEO to take effect increasingly are subject to criticism.

To avoid such criticisms, well-functioning boards recognize that a key part of their mission is evaluating and facilitating the CEO's development as part of an ongoing succession planning process. No other part of the organization or outside stakeholder has a comparable combination of the legal mandate, information about the company and its executives, and expertise needed to evaluate, develop and select a CEO.

The board's responsibility for the evaluation and development of management talent does not stop with the CEO. Far-sighted boards have good exposure to the entire senior management of the organization and are involved in planning their development. Doing this ties directly to the board's responsibility for selecting the CEO and ensuring an organization has an ongoing, internal supply of senior management talent. To exercise this responsibility effectively, the board needs to have within it the expertise to evaluate the management talent of the corporation comparatively and to determine if the correct investments are being made in developing management talent for the future.

Monitoring the Legal and Ethical Performance of the Corporation. Monitoring the ethical and legal behavior of senior management and the corporation is an activity legally required of boards. Although they are private-sector entities, corporations are subject to a vast array of government regulations (e.g., financial reporting requirements, health and safety regulations, labor law). Boards are ultimately responsible for ensuring their companies adhere to these rules and for taking action if they identify problems. To minimize the number of problems, boards attempt to ensure the right processes are in place and then check that senior management and employees are adhering to these processes. Carrying out this role effectively is critical to mitigate against outsiders (e.g., lawyers representing shareholders and employees or government agencies) who might otherwise become involved in identifying and correcting problems. It is much more disruptive and dysfunctional for an organization to have to respond to outside groups that challenge its behavior.

Crisis Management. In today's turbulent business times, corporations frequently face unexpected crises and developments. These range all the way from hostile takeovers, in which an outside company or individual purchases a majority of the stock and thus has control over the company, to a major product defect. When major crises such as these strike an organization, particularly if the crisis involves the incapacitation of a senior executive, the board must be prepared to act swiftly and effectively. Often this requires the directors to make a significant time commitment and get a quick education in some aspect of their companies' operations. To prepare for such situations, rather than react to them, some boards periodically do role-play exercises simulating how they would act in a crisis situation.

Mismatch Between Boards' Power and Mission

Historically, the boards of large U.S. corporations have not had the power or capabilities needed to perform all of the above tasks effectively. Boards have tended to be dominated by the chief executive, who has held the main sources of power as follows:

- Control of the board agenda, since the current or former chief executive is also board chairman in more than 90% of large U.S. companies
- Control of the information the board sees
- Control of board membership, which often consisted of individuals handpicked or at least nominated by the CEO
- Greater knowledge of the inner workings of the company.

In contrast, very different model of corporate governance has evolved in the new high-technology firms in areas such as Silicon Valley. In these small firms, venture capitalists (investors who assist in starting up a new firm in exchange for a portion of the profits) typically play a lead role in setting up the board and filling it with a small group of expert directors who can add vital capabilities to the new enterprise. These boards typically will split the roles of board chairman and CEO, with the venture capitalists handpicking the chairman to ensure the board's independence and protect their ownership stake.

In the last two decades, the gap between large and start-up firm boards has begun to narrow, as major changes in corporate governance have been introduced in large firms that have significantly increased board power. One clear sign of this shift from more passive to active boards is the firings of CEOs at many high profile U.S. companies (General Motors, IBM, American Express, Apple Computers, Compaq, Delta Airlines, etc.).

The reasons for this greater board activism and the changes in governance that have been adopted in many ways parallel the pressures for school reform. Entering the 1980s, U.S. corporations were seen to be underperforming, as measured by low levels of profitability, low productivity growth (a low level of outputs as compared to inputs) and a growing trade deficit. They were experiencing growing global competition, from established industrialized nations such as Japan and Germany and rapidly developing economies such as the Asian "four tigers" (Singapore, South Korea, Taiwan and Hong Kong). At the same time, many sectors (e.g., telecommunications, airlines, public utilities) were deregulated, subjecting companies to greater competitive pressures. Firms needed to cope with the revolution in information technology that was transforming both products and processes.

The transformation of boards is well illustrated at CompUSA. In fall 1993, growth had slowed dramatically, earnings had disappeared, and cash had dwindled. In December 1993, the outside directors on the board took control of the company. Together, they significantly changed and improved the board's performance, allowing it to play a productive role in the company's dramatic turnaround.[2] The basic

[2] Bateman (1996)

strategy at CompUSA included seven principles: (1) clearly define board responsibilities and role, (2) install strong board leadership, (3) require commitment from each board member, (4) meet with a purpose and establish effective subcommittee structures, (5) select board members carefully and pay them well, (6) conduct regular evaluations of the chief executive officer and the board, and (7) build a strong relationship between management and the board.

Large institutional investors, such as the California Pension Fund (CALPERs) and TIAA/CREF (a major education pension fund), became concerned that many corporations were not taking sufficient steps to restructure in the face of these challenges. These large funds did not have an effective "exit" option (e.g., their portfolios of investments were so widely diversified across types of investments that it was difficult to remove their ownership stake from many firms), so they began to exercise a "voice" option, calling for reform of corporate governance. They, along with other experts in corporate governance, put forth a series of proposals for increasing the power and capabilities of boards, so the boards could more effectively hold management accountable for performance.

Implementation Approaches

The degree of control exercised by outside directors on boards has been achieved through a variety of mechanisms:

- Altering board composition to decrease the number of insiders (employees or former employees of the company). The average board of a "Fortune 1,000" company had 11 directors in 1997 with just two insiders, one of which was the CEO.
- Reducing the number of outsiders who have a business relationship (e.g., law, consulting, supplier) that might make them beholden to management.
- Ensuring that outsiders chair the key board committees (compensation, audit, nominating) and that a majority, if not all, committee members are outsiders.
- Increasing the use of executive sessions, where outside directors meet without any insiders present (used by 69% of Fortune 1,000 boards in 1997, up from 62% in 1996).
- Designating a lead director to represent the outside directors and help set the board's agenda.

There are still some areas, however, where boards' existing practices are failing to measure up to the guidelines corporate governance experts and institutional investors have identified for increasing board independence:

- A majority of "Fortune 1,000" directors feel the CEO still wields the greatest influence over the appointment of new directors and committee members.
- Only 7% of large U.S. boards have separated the chairman and CEO roles, a separation far more common in Europe.

Aligning Interests of Directors and Owners. In an effort to ensure board members' motivations are aligned with interests of the owners they are meant to represent, there have been major shifts in the compensation and benefits packages of directors. The trend has been toward higher compensation (reflecting boards' greater duties) with more pay tied to company performance. Some of the specific changes include the following:

- More pay in stock — 78% of "Fortune 1,000" companies paid directors at least partially in stock in 1997, up from 62% in 1996.
- More boards requiring directors to own shares — 53% of firms in 1997, up from 44% in 1996.

- A reduction in director pension plans that are seen as encouraging directors to identify with management, rather than the firm's owners — only 19% of firms offered pension plans in 1997, down from 49% in 1995.

Increasing Manager and Director Accountability. Research suggests company managers can improve results by shifting from detailed hands-on control to defining clear performance objectives and then giving employees the freedom to meet them. Likewise, boards have discovered they can increase their authority without the problems accompanying micromanagement, by defining clear performance objectives for the chief executive and then holding him or her accountable for the results. Nearly three-quarters of "Fortune 1,000" companies now conduct a formal annual CEO evaluation.

A well-functioning CEO evaluation process typically has the following features:

- The CEO proposes a set of objectives at the start of the year that include company financial objectives, the building of longer-term organizational capabilities and personal development goals.
- The board reviews, modifies and approves the objectives along with a clear set of metrics to determine if each objective is obtained.
- The CEO's objectives are then flowed down to the top management team and through them to the rest of the organization.
- Progress against the targets is reviewed during the course of the year.
- A final appraisal is conducted and a significant part of the CEO's compensation is based on how he or she has performed against these measures.

This technique is well illustrated at Pfizer. CEO William Steere drafts initial sets of quantitative and qualitative objectives in December for the coming fiscal year. These are sent for comments to the senior managers who report directly to him, providing one of several opportunities for them to influence and shape the firm's annual goals. This is also an opportunity to clarify responsibility down the chain of command for certain objectives. Senior managers learn for which of their CEO's performance objectives they will be held accountable. In this way, the evaluation process ensures objectives set at the top align with operational and tactical goals further down the organization.

After incorporating his subordinates' comments, Steere puts the objectives into a final draft, which he forwards to the compensation committee. The committee, composed of three outsiders, meets in early February to review the prior year's performance and establish the coming year's goals. As part of its meeting, the committee reviews the CEO's objectives, along with those of his seven senior managers. Afterwards, the group meets face-to-face with Steere for several hours to discuss his performance and his goals for the year. In addition to the CEO and the three committee members, the vice president of human resources is present to facilitate the discussion.[3]

Board evaluations are increasingly used as a tool for directors to gain agreement on board objectives and regularly reexamine the board's performance. One-third of the "Fortune 1,000" companies now conduct an evaluation of the board as a group.

Most boards conduct self-evaluations in which members rate the board's effectiveness in areas such as overall governing, shaping long-term strategy, bolstering the company's image, planning for top management succession, anticipating possible threats to company survival, monitoring strategy implementation and building networks with strategic partners.

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[3] Conger, J., Finegold, D., & Lawler, E.E. (1998). "CEO Appraisals: Holding Corporate Leadership Accountable." *Organizational*, Summer: p.7-20.

For example, at the start of every fiscal year, Texaco's board defines its general areas of responsibility (for example, oversight of the company's general financial health, assuring adherence to corporate vision and values, planning for succession and reviewing the CEO's performance). The board then prioritizes the areas of responsibility and creates objectives in each area. At the end of each fiscal year, the nominating committee then analyzes the minutes of all board meetings to determine how the board allocated its time relative to those priorities. Board members receive this information as the basis for a discussion of the board's effectiveness.

Evaluations of individual directors' performance are rarer. While 75% of directors surveyed believed directors should be evaluated, only 19% of boards actually do this. The Center for Effective Organizations' interviews with CEOs and directors suggest there is widespread perception that such individual evaluations would be divisive and potentially make it harder for boards to attract ne directors.

An example of this has occurred at Motorola, where directors recently began assessing themselves in response to board-room discussion stemming from their full-board evaluation. Prompted by the question, "What does the board add to the management of the corporation?" the discussion turned quite naturally to, "What does each individual member add?" That question led to an annual self-assessment exercise that asks directors to indicate their degree of agreement with 20 statements about their individual performance as directors. Statements include such comments as, "I understand Motorola's industry and markets," and "I am fully prepared for board meetings." The questionnaire is for the individual's private use only and is not shared with any committee or other board member. It serves as a simple discipline and structure that directors can use to reflect on their own performance.

Building Board Capabilities. Faced with growing demands, leading boards are taking a number of steps to increase their capabilities:

- Using a matrix to compare the organization's changing strategic priorities with board members' areas of expertise to ensure there is alignment and to identify key needs in appointing new directors
- Providing training and clear information to new directors to help them come up to speed quickly in their new role
- Creating a formal committee to review the corporate governance process and board operations
- Setting aside time, such as an annual retreat, to devote exclusively to long-term strategy, a process that can deepen directors' knowledge of the company and the challenges it faces, while giving top management valuable guidance for identifying potential threats and opportunities.

Capabilities are increased re arly at Dayton Hudson. Throughout the last decade, Dayton Hudson's board has set aside a block o me each year to review its governance procedures and evaluate their effectiveness, experimenting th a variety of different formats. During the takeover boom in the 1980s, members of Dayton Hudson's board did a case study to learn how the board of another company that had been through a hostile takeover dealt with that process. In other years, they have sent out written surveys, asking the directors to assess the information the board was given and suggest how the process could be improved. Last year, they circulated extensive, publicly available, corporate governance guidelines and asked the board whether any amendments were needed.

Results

Introducing more effective governance practices can have a strong impact on performance. Following changes in the role of its board in 1993, CompUSA reported increases of 30% in sales and 146% in earnings. The stock moved from a 1994 low of $3.50 to $44 per share as of 1996.[4]

[4] Bateman (1996)

Researchers at the Center for Effective Organizations have just completed a major study in collaboration with Korn/Ferry International. This study links responses from Korn/Ferry's annual survey of more than 1,150 directors of "Fortune 1,000" corporations to performance data on more than 350 public companies. Findings demonstrate adoption of certain board practices drives more effective governance and better company financial and stock market performance.[5]

To illustrate, companies in which the board benchmarks the firm against top performers in comparable industries have more than doubled the stock market return and achieved a much higher return on investment than companies where directors do not receive such information. Greater effectiveness on setting and monitoring strategy consistently is related to higher return on investment in both current and future years, while boards that score highest on the effectiveness of their external relationships show much higher stock market performance in the following year. Other board characteristics that have the greatest impact on performance include the following:

- Conducting a formal evaluation of the CEO
- Ensuring the board has control over the meeting agenda
- Spending time identifying potential risks to the company
- Having a broad range of indicators of organizational effectiveness.

In summary, reforming corporate boards is an important governance strategy that many firms, including United Airlines, Motorola, Pfizer and CompUSA have deployed. Doing so may involve separation of management and board roles, employee involvement on boards, crisis management by boards and evaluation of the CEO by the board. Implementing this governance strategy can potentially increase shareholder value, increase sales and earnings, and align the interests of directors and owners.

[5] Korn/Ferry International (1999). *Getting Value from the Boardroom: Board Practices and Company Performance*. Korn/Ferry International.

STRATEGY #2: ORGANIZATIONAL IMPROVEMENT

A second category of governance strategies appeared when the mass acceptance of the traditional bureaucratic paradigm began to break down in the 1980s. Three approaches have received the most attention: employee involvement (EI), total quality management (TQM) and process reengineering. They all involve complete change processes and, perhaps because of their popularity, have been accused of being nothing more than fads. In truth, like a fad, each strategy frequently has been implemented as the program-of-the-month, with little thought or understanding on the part of the implementing companies. All three have been adopted, at least to a limited degree, by a wide range of major U.S. corporations. Research conducted at the Center for Effective Organizations has documented the increasing acceptance of all three approaches as well as their impact.

This section reviews these approaches to organizational improvement. Each approach is defined and its potential impact on organizational effectiveness delineated. Issues involved in managing the organizational changes that occur when a company adopts one or more of these approaches also are considered.

Employee Involvement

The most important overall focus in employee involvement concerns locating decisions as low as possible in the organization. Employee involvement consistently advocates a bottom-up approach to management. Jobs at the lowest level are thought to be best designed when individuals or teams do a complete part of an organization's work process, such as making an entire product or providing a complete service. In addition, this approach argues that the individuals or teams need to be given the power, information and knowledge they need to work autonomously – that is, independent of management control and direction. The job of management is to prepare the individuals and teams to function in an autonomous manner. Management is an enabler, a culture setter and a supporter rather than a director of employee action.

Some writings on employee involvement place a strong emphasis on reward systems. They suggest combining participation in decisionmaking and democratic supervision with rewards for skill acquisition and for organizational performance. Gain-sharing plans (in which gains in productivity are shared with employees who helped bring them about), profit-sharing plans (in which profits are shared with all employees) and employee ownership are important reward system practices associated with employee involvement efforts.

Employee involvement programs lead logically to a flattening of the organization and, in many cases, to the elimination of substantial amounts of staff and support work. Such work is often seen either as moving out of the organization or as being done at lower and lower levels within the organization. Employee involvement programs also stress that a substantial amount of the work done by managers and supervisors is unnecessary because it simply supports a command-and-control approach to management that is not needed when employees are involved in their work and capable of self-managing. In organized work settings, employee involvement advocates forming partnerships with unions to get their leadership involved in the organization.

Organizational change is given a considerable amount of attention in the literature on employee involvement. It stresses bottom-up change and, in most cases, targets the first level of the organization as a place to start. In many respects, employee involvement does not argue for a continuous improvement approach as much as for discontinuous change; it holds that substantial gains in organizational effectiveness are a result of moving to completely new work structures and new ways of organizing work.

The General Motors Saturn operation, for example, uses a high-involvement design that includes work teams, skill-based pay and gain-sharing, intensive training each year and extensive sharing of business information with employees. Decisions are made jointly by internal boards with significant union membership. In fact, this organizational design was created by a joint union-management design group. The plant is widely believed to be exemplary in terms of performance results and stakeholder co-governance.

Total Quality Management

Total quality management (TQM) is best viewed as a management philosophy that combines teachings on statistical process control and group problem-solving processes with values of quality and continuous improvement. This approach was first institutionalized by Japanese companies and began to draw attention in the United States when U.S. companies began to be threatened by high-quality Japanese products.

The definition of what constitutes quality in an organization's functions and activities is a major focus of TQM. Customer reactions are regarded as the best measure of quality. Internal customers (for example, employees in other departments) substitute for external customers in measuring the quality of many of the organization's operations. Focusing on quality is considered a way to gain competitive advantage. TQM advocates often argue that if quality is improved, costs will drop and organizations will respond more quickly and effectively to customer requests.

Total quality management programs usually emphasize the importance of senior management acting as the main driver of TQM activities. There are many reasons for this, but the most important focuses on the view that TQM is a culture, not just a program. It is a culture in the sense that it tries to change the values of the organization and its employees, as well as their behavior in multiple areas. Top management support is necessary to ensure the right priorities are set and that commitment to TQM principles exists throughout the organization.

According to TQM advocates, most quality problems in organizations are caused by management and the systems they create. Managers are asked to improve these systems so they do not produce quality problems, particularly those due to functions not properly relating to one another.

The technologies used to support both quality measurement and quality improvement are highly visible elements of TQM programs. A typical program includes techniques that aid issue identification and problem solving. Most employees are trained in their use. These techniques include statistical process control methods, measures of nonconformance, cost of quality, cause and effect analysis, and various group decisionmaking methods. They typically focus on creating and using accurate production and quality information and on the precise measurement and quantification of problems.

TQM places great emphasis on including all employees in the TQM culture. This is where employee involvement – or as it is usually referred to in the TQM literature, "empowerment" – comes in. Employees are expected to take responsibility for quality in two important respects: they are expected to call attention to quality problems as they do their normal work and, perhaps more important, they are expected to accept the continuous improvement culture and look for ways in which the organization's overall operations can be improved. To do this, of course, they need skills and information, as well as vehicles that allow them to produce change.

In most TQM programs, quality circles and improvement groups are the major vehicles that allow employees to make suggestions and change work processes. Often employees work on problems of lateral coordination across structures at the same level in the hierarchy and make suggestions about how to

improve managerial systems, work methods and work procedures. In some cases, firms encourage employees to meet in their natural work groups to talk about improved approaches and new work methods. TQM programs usually emphasize work process simplification and codification. The objective is to create a simple workflow that carefully specifies work activities.

Typically, employees receive a substantial amount of quality information and training in TQM programs. In many instances, this represents the first time employees will have received training and valid information about quality. Also new may be the chance to influence the work methods and work procedures that influence quality. The implementation of TQM almost always marks the first time employees have had a chance to monitor the quality of their own work and make decisions about its adequacy.

Close contact with customers is achieved in a number of ways. Customer advisory boards, broad use of "customer sensing" through mechanisms such as focus groups (in which problems and issues are discussed informally), regular visits to customers and/or opening facilities to customers are approaches adopted in many TQM sites. The purpose is for organizational members to be highly attuned to customer needs and to increase customer influence on organizational products and services.

During the late 1980s, TQM was a cornerstone in the turnaround of companies such as Motorola and Xerox that found themselves in markets where Japanese competitors' quality and customer responsiveness were eroding their market share. In both companies, TQM's quality improvement and customer focus tools and approaches have become embedded in the way they operate.

Reengineering

The term *reengineering* and the ideas associated with it burst on the management scene in the early 1990s. Few, if any, management approaches have enjoyed the almost instant popularity of reengineering. Unlike employee involvement and total quality management, reengineering's popularity was primarily driven by a group of consulting firms that offered reengineering programs to major U.S. corporations. Although reengineering is not firmly rooted in any particular discipline, its strongest roots are in information technology. Many of the change activities involved in reengineering are driven by efforts to improve large organizations' use of computer systems. Additionally, reengineering was aimed at designing processes to optimize the value delivered to the customer.

When first articulated, reengineering was primarily about improving the lateral processes of an organization and creating a structure that focuses on processes more than functions. As a result, it is often referred to as "process reengineering" and soon became associated with employee downsizing in which employees are laid off or permanently let go. Downsizing, of course, produces immediate cost reductions and can be a major initial positive change in many corporations. Many large corporations were and still are bloated bureaucracies with too many levels of management and too many managers – particularly middle managers.

Although each reengineering project differs somewhat in its features, most of them share some common elements. The change process is almost always top down, and it focuses on using information technology to improve the lateral processes of an organization. It usually emphasizes reducing the cost and cycle time of routine transactions. Perhaps the most common part of an organization to be reengineered is the order administration area. Here, information technology can help eliminate the often slow, labor-intensive production-line process through which orders travel before they are executed. After reengineering, individuals or small groups with access to interactive online databases typically are able to execute an order quickly and respond intelligently to customer inquiries about where their order is in the production

process. They are also able to integrate this feature with information concerning the state of a customer's account and credit.

Although total quality management programs and employee involvement programs address the issue of too much hierarchy, functional specialization and overhead, they do it gingerly. They rarely recommend dramatic downsizing and the elimination of management layers. Instead, they argue that over time, as employee involvement takes hold, fewer managers will be needed and their number should be reduced gradually through attrition rather than through immediate and highly directive action on the part of senior management.

In many respects, employee involvement and total quality management set the stage for the popularity of process engineering. Many employee involvement programs, particularly those that have used self-managing teams, have demonstrated the advantages of organizing for lateral activities, showing how much coordination can be improved when lateral relationships are established. They also have pointed out that teams can be self-managing, making fewer layers of management necessary. TQM programs have done a good job of showing how work can be more customer-focused and how, with good process controls, quality can be dramatically improved, making it much less necessary to have extensive quality control functions and many levels of management. All of this information laid the groundwork for senior managers' realization that tremendous reductions in management overhead could be realized if employee involvement and total quality management were used.

The rapid development of low-cost "intrafirm" computer networks was another major enabler of the process reengineering movement. In the 1990s, the idea that information technology, in fact, can substitute for a substantial number of management layers started to take on a sense of reality. By linking employees directly to one another and providing them with information and expertise, information technology was able to make certain staff support operations unnecessary. This not only made unnecessary those middle managers whose major role is to coordinate the work of individuals in microscopic jobs or functional areas, but it also decreased the need for functional staff support specialists in areas such as quality control, human resources management, and order administration and scheduling.

An excellent example of process engineering occurred at Procter & Gamble in the early part of the decade. The product supply system became a combination of the previously independent functions of purchasing, engineering, manufacturing and distribution. Experts in logistics long have advocated such a function, called materials management. Initially, the corporate staff functions were brought under a single senior vice president. After policy integration, a product supply manager was created for each division (now called a category) manager. The four functions report to the product supply manager, rather than to the division manager. Working against a "total-delivered cost metric," the unit has reduced flow times and inventories and increased on-time delivery and quality.[6]

Hewlett Packard made similar changes in the set of activities it calls the product generation process. At the corporate staff level, it combined research and development, manufacturing and purchasing under a single vice president. With representatives from marketing and finance, Hewlett Packard integrated systems and information infrastructure. The corporate staff experimented with team incentives, recommended division changes and developed a metric of "break-even time" to measure product generation in teams. The company then set a goal of halving the break-even time on new products.

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[6] Galbraith, J.R. (1992). "The Business Unit of the Future." In Galbraith, J.R., and Lawler, E.E. (Eds.) *Organizing for the Future: The New Logic for Managing Complex Organizations*, pp.43-64. San Francisco, CA: Jossey-Bass, Inc. Publishers.

Implementation Approaches

Employee involvement, total quality management and process reengineering are implemented through different, but not mutually exclusive, organizational designs. Employee involvement tends to favor small business units that are, in effect, mini-businesses. Total quality management, on the other hand, focuses heavily on groups that have clearly established customers and quality levels. Process reengineering tends to address whole processes and how a total corporation or business unit can be organized around them.

One of the places where total quality management and process reengineering differ most from employee involvement lies in the process for implementing change. Advocates of employee involvement have argued rather consistently that the process used to introduce the change process itself should be highly participative. Employees are put on teams to redesign their work areas, design gain-sharing plans and so on. Both total quality management and process reengineering have often been installed in a much more top-down manner. Both have extensively used outside experts or consultants. Reengineering experts, after studying the specific firm, often tell the organization how the work should be reorganized, install new computer and information systems, and train employees in how to operate within the new organizational structure.

Historically, employee involvement change efforts often looked at small processes, like part of a production line, while process reengineering defined processes much more broadly and ambitiously. In fact, reengineering may entail entirely eliminating certain functions, such as marketing and sales, and building an organization around processes alone. This has happened in some companies; Harley-Davidson, for example, claims to have only two processes – business development and order fulfillment.

All three of these approaches have implications for governance. Employee involvement espouses moving decisionmaking lower in the organization. This is implied in the TQM movement as well, because of its advocacy of employee task teams that initiate changes in work processes. Business process reengineering, because it advocates creating units that contain the whole set of processes that deliver value to the client, also represents a change from governance through the traditional segmented bureaucracy of functionally delineated departments. It clusters members of all functions required to deliver services to a particular group of clients and gives them accountability and authority for delivering those services. On the other hand, because information technology is expensive to develop, the information technology systems are usually centrally defined and may be perceived as a constraint on the business units.

Results

To examine the effects of employee involvement, TQM and reengineering practices on firm performance measures, researchers at the Center for Effective Organizations obtained data on company performance (sales per employee, return on sales, return on assets, return on investment, return on equity and total return to investors) for 1992 through 1996 for 892 of the "Fortune 1,000" companies.[7]

Findings demonstrated that all three approaches have statistically significant relationships to various aspects of firm performance. Employee involvement practices were significantly related to all five measures of corporate performance. TQM usage was related to return on sales, assets and equity. Reengineering was related to return on sales, assets, investment and equity. Two kinds of reengineering practices had somewhat different impacts on performance. Work restructuring was positively related to financial performance. Just the opposite was true with respect to the cost reduction approaches. Ironically, more use of them tended to be associated with poorer financial performance. Thus, reengineering simply

[7] Lawler, E.E., Mohrman, S.A., and Ledford, G.E. (1998) *Strategies for High-Organizations*. San Francisco, CA: Jossey-Bass, Inc. Publishers.

to reduce numbers of employees does not accomplish the business performance required to be successful in the marketplace.

How large is the effect of employee involvement and TQM on corporate performance? One way to estimate how much change in one measure will cause another to change is to look at the effect of a one standard deviation (SD) change. Increasing the use of employee involvement and TQM practices by one SD means covering approximately an additional 30% of employees. A 1993 study by the Center for Effective Organizations found an increase of one standard deviation has quite noticeable effects on performance measures.[8] Such an increase in coverage is associated with increases in total factor productivity of 1%; in return on assets of 1.1%; in return on sales of 2%; in return on investment of 2.8%; and in return on equity of 3.1%.

The results of these studies strongly suggest that high usage of employee involvement, TQM and reengineering consistently is associated with high performance. Companies who are high users of these approaches tend to perform significantly better. The results are particularly strong for employee involvement and reengineering. Analyses of the financial impact support the favorable ratings received when firms were asked to evaluate the success of these programs and practices. Overall, studies suggests that by adopting these programs on a widespread basis, firms can gain a significant competitive advantage.

[8] Lawler, E.E., Mohrman, S.A., and Ledford, G.E. (1995) *Creating High-Performance Organizations: Practices and Results of Employee Involvement and Total Quality Management in Fortune 1000 Companies*. San Francisco, CA: Jossey-Bass, Inc. Publishers.

STRATEGY #3: DEVELOPING TEAM-BASED ORGANIZATIONS

Team-based structures have emerged as a response to competitive pressures and the change programs adopted to respond to these pressures. Indeed, the use of teams for various purposes is advocated by all of the three change models discussed above. Teams are collections of individuals who are interdependent in their tasks and jointly responsible for shared outcomes. They represent a form of governance that retains a managerial coordinating structure but enables a broader set of constituents to participate in making organizational decisions. Experts agree the degree of control over organizational decisionmaking ranges from consultative to substantive, depending upon the type of team being implemented.[9]

Consultative participation occurs when managers retain decisionmaking authority, but employees meeting in teams provide suggestions and recommendations to management. Parallel teams such as quality circles and improvement teams implemented as part of total quality management programs are examples of consultative participation. Substantive participation occurs when decisionmaking authority is given to employees working in teams and requires fundamental changes in work organization. It is a form of decentralization in which teams are empowered to make decisions regarding their work within certain business unit and corporate constraints. Self-managing work teams, frequently implemented as part of employee involvement programs, are examples of substantive participation. A growing number of U.S. companies are using different types of teams to enable both consultative and substantive participation.

Types of Teams

Four types of teams can be identified in organizations today. They include (1) parallel teams, (2) project teams, (3) work teams and (4) management teams. Other sources offer slightly different typologies, but the categories tend to overlap.

Parallel teams bring together people from different work units or jobs to perform tasks or functions that cannot be easily accomplished within the organization's formal structure. These teams literally exist in parallel with the rest of the organization. They generally have limited authority and only can make recommendations to individuals higher up in the organizational hierarchy. The major organizational mechanism designed to enable consultative participation, parallel teams are used primarily for improvement-oriented and problem-solving tasks and are the most common feature of TQM approaches. Typically, they will meet for a few hours each week, while members continue to do their regular jobs. Sometimes employees are fully dedicated to such improvement teams for a short period of time. When this occurs, these teams function more like project teams (see next section) than parallel teams. Examples of parallel teams include the following:

- A task force made up of employees from various functions and levels charged with the task of making recommendations on how to improve service to customers
- Several members of a production work team who meet weekly to discuss and solve production problems
- A quality improvement team charged with making recommendations on how to reduce errors in the billing process
- A reengineering task force charged with making recommendations to senior management on redesigning the company's order management process.

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[9] Levine, D.I., and Tyson L. (1990). "Participation, Productivity and the Firm's Environment." In A.S. Blinder (Ed.) *Paying for Productivity*, pp. 183-243. Washington, DC: Brookings Institute.

While parallel teams have been used for some time, the recent interest in employee involvement, TQM and process reengineering have dramatically boosted their appeal. Research conducted at the Center for Effective Organizations shows that 91% of "Fortune 1,000" companies use some form of parallel teams. Their widespread popularity can be explained by a number of factors:

- Parallel teams are easier to implement than other types of teams.
- Unlike self-managed work teams, they require no change in managerial authority and power and therefore are less threatening.
- They do not require changes in the organizational structure.
- Finally, it is typically not necessary to change organizational systems and practices to support parallel teams.

Most large companies have used parallel teams as part of total quality management or quality circle programs. Motorola, Honeywell and Florida Power and Light are examples of companies that extensively implemented parallel teams; the latter won the Deming Award for total quality as an early adopter of a TQM management approach. In the 1990s, however, the company dismantled its quality bureaucracy and reduced use of these teams. In a letter to company employees, the chief executive officer said the company had put too much emphasis on quality and had not balanced it with the need to control costs and respond quickly to customers.[10] In general, if parallel teams are used selectively with a clear focus on business objectives, they can be a good way to begin to develop the capability needed to increase employee involvement. Organizations, however, need to be careful not to develop a costly bureaucracy that overshadows any business benefits.

Project teams are time-limited. Part of the organizational landscape for quite some time, with aerospace and defense industries using them since World War II, project teams produce one-time outputs, such as a new product or service, a new information system or design of a new plant. Workers from different functional units typically make up the project team, which companies try to balance with the right mix of knowledge and skills needed for the project. When their work is complete, project teams usually disband. For the most part, team tasks are nonrepetitive in nature and require the application of considerable knowledge, judgment and expertise. Therefore, project teams tend to have broad mandates with authority to make point-of-action decisions.

Because project teams cannot solve nonroutine problems and create innovative solutions without having decisionmaking authority, they typically are a mechanism for substantive participation. Team autonomy, however, is not unlimited; teams must function within the organization's strategic parameters and maintain connections with the stakeholder groups and functional departments they represent. Their capacity to do multiple activities at the same time, rather than sequentially, saves time.

As a result, most firms engaged in new product development make use of project teams. For example, Hewlett Packard(HP) uses cross-functional and often cross-divisional project teams to develop new products, such as laser printers, new computer systems and medical instruments. Currently a $50 billion company in which two-thirds of profits come from products developed in the last two years, HP's viability depends upon a constant stream of successful new product introductions.

In a study of HP's project teams, the Center for Effective Organizations found one team engaged in development of a complex computer system that ultimately was quite successful in its marketplace. Five HP divisions were involved, and a cross-divisional governance board provided oversight. Research and development, manufacturing and marketing personnel worked closely together on multiple project teams

[10] Lawler, E.E. (1992). *The Ultimate Advantage: Creating the High-Involvement Organization*. San Francisco, CA: Jossey-Bass, Inc. Publishers.

committed to the use of concurrent engineering techniques. More than 100 people were involved in this effort, which was the top priority project across divisions, and the level of teamwork and cooperation required was unprecedented.

Work teams are continuing work units responsible for producing products or providing services. Unlike the other team types, they perform regular, ongoing work. Team membership is usually stable and well-defined, and it is easy to identify who is on the team and who is not. Traditionally, work teams have been directed by supervisors who made most of the decisions about the jobs to be done. Recently, a form of work team with a variety of labels — self-managing, autonomous, semi-autonomous, self-directing and empowered — is gaining favor.

In self-managing work teams, employees make decisions formerly the province of supervisors and managers. The teams decide how the work is to be done, distribute task assignments and coordinate member activities. They often participate in setting team goals and reviewing team performance, and some even hire and fire their own members. Self-managing work teams are a clear example of substantive participation. Members typically are cross-trained to perform a variety of skills, increasing their organization's flexibility to respond to change. In research conducted at the Center for Effective Organizations, 79% of the "Fortune 1,000" companies reported they have implemented self-managing work teams, although most involve only a small segment of the workforce. In contrast to parallel teams, self-managing teams require change in organizational structures, systems and practices. In addition, they change the power balance between managers and employees and can be threatening. However, when designed and supported appropriately, they represent significant performance benefits (see next section).

One of the first adopters of self-managing work teams in the insurance industry was Aid Association for Lutherans (AAL), a fraternal benefits society. In 1987, AAL transformed its insurance products divisions from a functionally based organization to a regionally based one, with each region providing all services to their designated customers. The concept put in place involved "one-stop" processing to avoid the delays and lack of ownership that had characterized the prior organization. In each region, four self-managing service teams (claims processing, "service" functions such as loans, terminations and underwriting, were cross-trained so they could handle multiple product lines. Each team was accountable for processing all work for which it was responsible, including task assignments, quality checks, vacation schedules and work methods. Performance data were collected and feedback provided to each team on its productivity, quality of work and customer satisfaction. Based on this change, productivity improved and customer satisfaction more than doubled.

Management teams coordinate and direct sub-units under their jurisdiction. The team sets direction and provides resources to a business unit and is ultimately responsible for its performance. Its authority stems from the hierarchical rank of its members. Management teams typically are composed of members responsible for each sub-unit, such as managers of manufacturing, engineering, marketing and quality. At the top of the organization, the senior management team determines the firm's strategic direction and manages its performance.

In response to the turbulence and complexity of the global business environment, the use of top management teams is expanding. More CEOs are developing power-sharing arrangements with their top managers to respond to challenges they face. Because executives have always wielded power and participated in the substantive operation of their firm, the use of management teams does not necessarily change the organization's decisionmaking authority. Management teams, however, require decisionmaking to be laterally integrated across functions and business units because their value stems being able to make decisions in the firm's best interests.

Although many executive groups call themselves teams, most are teams in name only. Yet, a few companies such as Motorola and General Electric have adopted structures that include "Office of the President" composed of three or four members that share responsibilities for the functioning of the whole organization.[11] A leadership transition at Champion International Corporation resulted in the use of a "real" executive team. Champion had been using self-managing work teams in its mills for several years, and when the CEO and COO (Chief Operations Officer) decided to retire simultaneously, they set in motion a process to form a team at the top.[12] A series of off-site meetings was held with the 18 senior executives in which they worked on strategy, as well as operational and organizational issues. When the new CEO was chosen, he reduced the number of executives in the top team to eight, and the "Gang of Eight" worked on developing a new organizational structure, communications plan and compensation structure. They had real work to do, and the competitive pressures in the paper industry, as well as their use of team-based structures in the mill, created the conditions to support the development of a true executive team.

Implementation Approaches

The nature of the change process depends on the type of team being implemented and the scope of the change. For parallel teams, the change is incremental. Managers can establish parallel teams, provide training to team members and set up management-level mechanisms to respond to suggestions generated. For example, total quality management programs typically establish parallel teams in which employees make suggestions to improve aspects of the production and quality control process. For these efforts, employees are trained in problem-solving skills, statistical techniques and the particular quality approach being used. Because managerial authority is not challenged and organizational structure and systems can remain the same, the change process is not difficult. Although the limited investment frequently results in limited results, parallel teams can be a good place to begin involvement efforts. If such consultative participation activities are followed by opportunities for substantive participation, then greater performance results can be expected.

Substantive participation requires substantial organizational change. The implementation of self-managing work teams, for example, requires key shifts in how work is done. For example, in a typical manufacturing facility, machinery may need to be grouped by product rather than process. Instead of putting all similar machinery together, an organization may need to create work cells in which all the machines necessary to build a product are located together. For team members to build a product collectively, they typically need to acquire new skills (cross-training) so they can do most of the activities that fall within their area of responsibility.

The way team members are paid also may need to change from being job-based to skill-based so the reward system supports the learning that needs to take place. Making responsible decisions about the work requires the team to have considerably more information about how it is performing so it can monitor its activities and take corrective actions. This requires changes to the information and feedback systems. In addition, the role of supervisors will change since they will likely have responsibility for guiding and supporting several teams. They will need training in how to perform their new roles, particularly if they were traditional supervisors in the past. Senior managers will need to create the conditions to enable this degree of participation.

Usually the process to adopt self-managing work teams is participative, with considerable involvement from organizational members. For example, as described earlier, Aid Association to Lutherans

[11] Lawler (1992).

[12] Katzenbach, J.R. (1998). *Teams at the Top: Unleashing the potential of both teams and individual leaders*. 1998. Boston, MA: Harvard Business School Press.

reorganized its functionally based insurance products services division into geographic regions, each served by a self-managing work team. To carry this out, the management team involved a considerable cross-section of the employee base in its redesign, with approximately 125 employees out of 484 providing recommendations on structure, physical resources, operations, resources and other aspects of the new design. The result was reduced costs and improved customer service.

In contrast, the plant manager and management team of a marine terminal for Celanese Chemical Company engineered a major redesign to self-managing work teams without up-front employee involvement. After six weeks of planning, the management team announced the changes that would take place immediately. They included installation of self-managing work teams, change in the role of supervisors, rotation of job roles, and measurement and feedback about performance. Once these changes were announced, employees had multiple opportunities to refine them and work on ongoing improvements to work methods. In a six-month period, this marine terminal dramatically improved its performance, as well as employee morale.

The use of cross-functional project teams also can require substantial organizational changes. If an organization has operated functionally and hierarchically, then decisionmaking processes need to be adapted to operate laterally. Project teams need to have the authority and frequently the budget to allow them to operate without having to check every decision with functional leaders. Frequently, project leaders become jointly responsible along with functional leaders for managing the performance of project team members. For example, Hewlett Packard has used what it calls Board of Director Teams to coordinate the development of complex new electronic products. These teams involve leaders from different functional areas (engineering, manufacturing, quality, finance and so on), and they are responsible for making sure product teams develop their products on time and quickly resolve the conflicts that are inevitable between different functions. These teams provide performance feedback to the project teams under their jurisdiction, and performance management of team members is a joint responsibility of their project and functional leader.

The adoption of real management teams (rather than a group of top managers who are a team in name only) requires significant behavior changes on the part of these managers. They need to apply teamwork and problem-solving skills and take the perspective of a general manager rather than a sub-unit leader. Frequently, reward systems are changed so a greater proportion of their pay is based on the success of the whole business unit. For example, when it moved to teams, IBM's sales and service area changed the compensation of its top managers so that 50% of their pay was based on the unit's success and 50% on their functional area's success. Even with this change in the pay system, however, many managers found it difficult to take a broader organizational perspective.

Results

Research has found teams to be associated with higher levels of productivity, quality, customer satisfaction, safety, job satisfaction and organizational commitment.[13] It should be noted, however, that many performance benefits are achieved with self-managing work teams that have considerable control over their own structure and process. The research on such teams suggests clear performance benefits in terms of reduced costs, increased quality and employee satisfaction. Performance results have been mixed, however, in terms of behavioral outcomes, such as absenteeism, turnover and safety.

For traditional work teams, much of the evidence for impact has been collected on a case-by-case basis. One study, for example, chronicled the pervasive positive impact teams have had in 20 companies which

[13] Cohen, S.G. & Bailey, D. (1998). "What makes teams work: Group effectiveness research from the shop floor to the executive suite." *Journal of Management*, 23(3): 239-290.

claim implementing teams resulted in improvements in bottom-line indicators such as cost savings, quality and service improvement, speed, absenteeism and turnover.[14]

Although popular reports have described performance benefits, the academic research has been less sanguine. The few academic studies of parallel teams for example — specifically quality circles — report few performance benefits.[15] More academic research is needed to draw firm conclusions. The evidence gathered to date indicates that use of consultative structures is a good way to begin to involve employees in contributing to the business.

Several studies regarding the impact of teams have failed to find effects for performance on more quantitative measures such as productivity; other studies report only modest findings.[16] These results may be due to using work teams in contexts where they are not appropriate. Clearly, work teams are not ideal for every task. When work is interdependent and involves the resolution of uncertainty, however, many decisions are best made by the employees whose work affects one another.

[14] Wellins, R.S., Byham, W.C., and Dixon, G.R. (1994). *Inside Teams: How 20 World-Class Organizations Are Winning Through Teamwork*. San Francisco, CA: Jossey-Bass, Inc. Publishers.
[15] Cohen, S.G. & Bailey, D. (1998).
[16] Cohen, S.G. & Bailey, D. (1998).

STRATEGY #4: ESTABLISHING INDEPENDENT SUB-UNITS

In the approaches described thus far, decentralization of governance has been partial — teams, regions, mini-businesses and other sub-units are empowered in some areas and expected to operate within corporate programs and approaches in others. Many private-sector organizations have found that such limited decentralization is insufficient as an organizational governance strategy to foster the levels of innovation required to achieve massive discontinuous innovation and change and/or to enable effectiveness of units that are performing different kinds of work from the mainstream organization.

They have found that even when the governance of units is substantially decentralized, these units are still constrained by the corporation's prevailing culture and processes. Despite decentralization, units are constrained by the biases and preferences of their-higher level bosses, evaluated and held accountable to similar and sometimes inappropriate outcomes, and subject to a host of subtle and overt normative and cultural expectations. These real and perceived constraints stifle needed innovation and/or make it tremendously difficult to innovate.

To deal with this reality, organizations have taken a variety of approaches, in effect, to free units from these common expectations in order to foster innovation and/or enable the development of a new organizational culture. These approaches fall along a continuum from creation of special status units that still are within the overarching governance of the parent organization to establishing joint ventures and spin-off organizations that are different legal entities.

"Greenfield Sites"

"Greenfield sites" are new organizational units established with the expressed intention of creating a new organizational model. Generally, a "protective umbrella" is established that enables the new unit to install substantively different work and management systems, to define a different relationship with employees and customers, and to have differing patterns of resource use. There may be a staged implementation and transition period before the unit is held accountable to similar or higher levels of efficiency and performance as other units using traditional approaches. In the manufacturing arena, hundreds of companies have used the greenfield approach to set up high-involvement plants. They have established hierarchically flat factories managed by self-managed teams, with goals and reward systems that create a close link between employee and business outcomes, and with a high investment in employee and process development to optimize the technical and human aspects of the production system. These companies have found that establishing a high-involvement culture is easier in a start-up than in an ongoing plant because there is less embedded hierarchical culture to overcome. The greenfield approach increasingly is being used in the service sector as well.

Greenfield organizational divisions or units may be established because organizations want to enter new markets or businesses that will require quite different performance from the organization's existing units. They may set up a new division or operation that operates with a different logic. For example, a company noted for extremely effective performance in a consumer marketplace may set up a new unit to operate in a corporate marketplace. The new unit may need to develop new or tailored products, new distribution channels and a new pricing approach. The company general manager may choose to separate this unit from the "mainstream" business by having it report directly to him or her without oversight by anyone else.

An early entry into the greenfield strategy, Procter & Gamble introduced some of the first high-employee involvement plants back in the 1970s. These were called "technician plants" to indicate the high level of

skill and cross-training that characterized the largely self-managing work force. For many years, Procter & Gamble barred visitors to these plants because the plant design was considered to be a competitive advantage credited with as much as a 30-40% decrease in cost structure compared to more traditionally designed plants.

IBM's personal computer organization is another example of a greenfield. Creation of a new organizational unit allowed entry into a business viewed skeptically by mainline advocates of the mainframe computer business in which IBM was the world leader. The division was thought to be "small potatoes" in the start-up phase, subject to continual pressures for return on investment and other performance similar to the mainframe business. It also was raided for resources needed by the more profitable and established businesses. The separate unit was able, however, to establish the conditions needed to develop successful products and define a new market.

More recently, Charles Schwab's electronic brokerage unit was developed first as an independent project team to get Web-based Internet trading established in the brokerage. The unit then evolved into a separate business unit, "e.Schwab" that reported directly to the CEO. This unit developed with a different organizational structure, different processes and distinct norms (including a relaxed dress code and 24-hour flexible work time in an industry with "9 to 5" button-down collar norms).

A final example of the greenfield approach is 3's operations. Based on innovative product ideas, the company develops start-up units set up as protected and sponsored mini-businesses that can operate without interference from the existing businesses. Governance of these units, in effect, is separated from the core sector and divisional governance structure of the corporation, and put in the hands of a special innovation council.

Co-governance

A more radical change of governance is to set up units no longer fully governed by the corporation, but rather in partnership with other organizations that bring needed capabilities to the venture. Companies may realize they do not have all the capabilities internally to grow in a particular direction or that other organizations are more adept at performing certain functions because they specialize and have world-class capability. These companies may establish various kinds of partnerships to take advantage of capabilities that exist elsewhere and are complementary to their own. This is different from long-term vendor relationships where the products or services provided by a supplier are not part of the firm's core work. These partnerships can take multiple forms, such as the following:

- **Long-Term Supplier Relationships.** Companies may establish binding sole-source agreements with suppliers to provide products and services that are part of the overall product and service offerings. An example is Hewlett Packard's long-term relationship with Cannon to provide engines for its highly successful line of computer-driven printers. By definition, such a relationship means decisions regarding the direction of product development and organizational priorities, to some extent, must be jointly determined, as the capabilities of the supplier and the contracting company must be mutually supportive. Some form of partner-based governance relationship needs to be established for this purpose, a task generally accomplished by having one or more boards that look after issues such as joint product planning and operational planning and coordination.

- **Joint Ventures.** If parties are bringing relatively equal contributions to a business direction, they may choose to govern the new or combined business as a joint venture. This enables both companies to profit from, and share in, the risk in the business performance. One company may provide capital, and the other may provide the operating prowess and the day-to-day management. Alternatively, all parties may bring substantive content, as is the case in pharmaceutical companies where one company

may bring the product research and development capability and another may bring distribution capability. Joint ventures have governing boards composed from all contributing companies. Operational management may be conducted by employees who were formerly employed by one or both companies, but legally they are joint venture employees. Joint ventures are ways for organizations to enter markets where they do not have all the necessary resources, but nevertheless want, or need to benefit from, a presence in an arena that has high market potential or is critical to round out offerings to a customer base.

- **Spin-offs.** Often, companies recognize that the new business directions they have spawned will never find a fully comfortable home within the mainstream corporation, and that they do not have interest or capability to manage and adequately invest in them. They may spin off a set of activities into a separate company. This allows the original company to maintain some interest in a new direction, to gain advantage from ideas it developed but could not grow and nurture, or to ensure there are suppliers or partners available in areas synergistic to their primary offerings. In most cases, the organization that spins off part of itself loses direct hierarchical and legal governance control (although it may retain some ownership and thus derive financial benefit from its success). It often retains influence through contractual mechanisms if the new entity is an ongoing and perhaps even captive supplier of the original company.

  Hewlett Packard and other manufacturing firms have spun off some of their manufacturing capabilities because they cannot manufacture as cost-effectively as a specialized company. Another motivation for spin-offs in the electronics industry is the inability to afford to develop the levels of specialized expertise available in specialty firms. A spin-off can develop its own staffing patterns, compensation levels and processes, independent from the original company's corporate expectations and overhead expenses, and can split its overhead expenses across multiple customers.

  As a second example, some hospital systems have spun off their outpatient surgery clinics. This innovation filled a key niche in the evolving health care arena, and having such a capability was important to physicians who were being asked to treat patients in a more cost-effective manner. Because of the large overhead structures of hospitals, it was impossible to run profitable outpatient surgery clinics within the hospital. Many hospital systems spun off the outpatient surgery clinics so they would be available as an alternative. The spin-off allowed doctors to stay on the hospital staff and continue to refer patients to the hospital because they had close connection to an alternative, less costly venue for surgery in cases where that was appropriate.

Implementation Approaches

A corporation's ability to benefit from "greenfield sites" depends on its willingness to allow the new unit to operate with a different logic or invest in innovation dissemination activities so the rest of the organization gradually becomes more similar to the greenfield. The tendency is for the status-quo forces to put pressures and requirements on the new unit that bring it back into the traditional fold. As IBM's experience with its PC unit demonstrated, even if the greenfield is highly successful, its reintegration into the mainstream structure can force a conformity that kills the success model and results in sub-optimal performance in the new business niche. IBM nearly lost its presence in the personal computer market that it had created by subjecting the unit to requirements that did not fit its fast-paced market.

This shows the precarious nature of governance transfer when only a portion of the organization is involved. Charles Schwab, on the other hand, planned carefully and successfully reintegrated online brokerage trading into all its other brokerage units, an approach that required testing and refining the concept and establishing a customer expectation for the service. Once the concept was proven, the

traditional brokerage units understood its importance to their business, and a company decision was made to incorporate this capability into existing units.

Procter & Gamble is an interesting case in that for years it functioned with a number of high-performance greenfield start-up plants co-existing with traditional plants operating with a much higher cost structure. The traditional plants made no effort to emulate the practices of the greenfields until adoption of the new practices became a corporate mandate and a transition plan was demanded of all traditional plants.

Key success factors for greenfield organizations include a champion or sponsor at higher levels who can successfully protect the organization from the extreme forces of homogenization that exist within any bureaucratic structure. Sufficient start-up resources are required to allow independent operation free from interference and constraint from other units that operate with a different logic. The key is to provide an umbrella that protects the unit from the pressures inherent in the organization's entrenched paradigm.

Various partnerships and alliances face the challenge of learning how to co-govern for the good of the customer and the mutual benefit of the partners. Stable alliances are truly "win-win" propositions, and learning how mutually to adapt and optimize the total good has often entailed learning a new set of behaviors and competencies. Information systems for sharing pertinent information, coordination mechanisms for planning and resolving issues, and financial and other measurement systems to ensure equitable treatment and maintenance of contractual standards are examples of the myriad support systems that need to be put in place to support co-governance.

Results

In his book *From the Ground Up*, E.E. Lawler describes the results achieved using greenfield sites.[17] For example, studies conducted by Procter & Gamble suggest its greenfield plants tend to be 30-40% more effective than its traditional manufacturing operations. In these plants, team-based systems have proved to be a good way to do work that involves interdependent tasks and well-developed skills.

As described in M.A. Hitt's *Strategic Management: Competitiveness and Globalization*, one of the primary benefits of strategic alliances such as joint ventures is that firms can integrate complementary competencies and effect knowledge transfers to increase the probability of new ventures.[18] Joint ventures may also enable firms to combine their technological and creative resources and provide more access to capital as well as greater managerial capabilities. Hitt's research chronicles the impacts of joint ventures on several large high-technology firms. Texas Instruments, for example, formed strategic alliances with local partners to build manufacturing facilities in Europe and Asia. In Italy, it built a plant in cooperation with the Italian government, each paying 50% of the $1.2 billion cost. These and other alliances have helped Texas Instruments save more than $1 billion in manufacturing facilities. Furthermore, the firm gained strategic geographic positioning in emerging markets and partners with knowledge of those markets and of local cultures.[19]

There is some evidence that firms engaging in such partnerships and alliances show higher stock returns than firms that do not; these statistically significant findings were obtained in two rigorous research

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[17] Lawler, E.E. (1996). *From the Ground Up: Six Principles for Building the New Logic Corporation*. San Francisco, CA: Jossey-Bass, Inc. Publishers.

[18] Hitt, M.A., Ireland, R.D., and Hoskisson, R.E. (1997). *Strategic Management: Competitiveness and Capabilities*. St Paul, MN: West Publishing Company.

[19] Burrows, P.; Berman, L.; and Engardio, P. (1995, August 7). "Texas Instruments' Global Chip Payoff." *Business Week*, pp 64-66.

programs, each with large sample sizes.[20] The differential can be attributed to the market's perception that alliances have a more attractive future income stream. Because alliances are often formed between small innovative start-up firms wanting to penetrate new markets or expand existing ones and large established firms in search of new technology, investors seem to view these as a win-win situation for both firms.

As companies have started to implement more of these forms of spin-offs, partnerships and alliances, they have started to operate increasingly with the market as the governance mechanism in many aspects of their functioning. This is leading to a new form of organizing and governing activities: the network organization.

[20] Koh, J., and Venkataraman, N. (1991). "Joint Venture Formation and Stock Market Reactions: An Assessment in the Information Technology Sector." *Academy of Management Journal*, 34: 869-892.
Das, S., Sen, P.K., and Sengupta, S. (1998). "Impact of Strategic Alliances on Firm Valuation." *Academy of Management Journal*, 41(1): 27-41.

STRATEGY #5: CREATING NETWORK ORGANIZATIONS

In the private sector, there is extreme market pressure to be world class in all aspects of performance. Most organizations cannot accomplish this internally because of limited resources (money and talent), so a new form of organization is emerging — one composed of many units or "nodes" in a system. Often each of the units is a separate company entity that is, or tries to be, world class in some aspect of the network's business. Some may be located in a number of different company divisions. The most simple depiction of a network organization is a corporation and its set of suppliers to whom it has contracted out portions of its business. Increasingly, however, networks are being laterally integrated so the suppliers are linked to one another and the overall network is informationally linked, process compatible and engages in joint planning and coordinated operations.

In some cases (e.g., Sun Micro-Systems, Benetton, Nike, PacifiCare Health Care) the organization was designed to be a network from the onset. PacifiCare has never owned or managed the clinics and provider groups where its members receive health care; rather it sells and administers the insurance, while contracting with other organizations to provide services to PacifiCare members. In other cases, the network has evolved as companies have entered into partnerships of various kinds, have spun off parts of themselves and established new relationships. This latter evolution has characterized much of the automobile industry, where automobile companies have established a network of closely linked suppliers and have concentrated largely on design, assembly, marketing and distribution.

There is usually a network integrator. For example, Sun Micro-Systems provides design and development of complex products and the architecture for application software, but contracts with other network members for manufacturing, software development, and many commercial aspects of the business. It concentrates internally on a core of what it thinks it needs to do to remain strategically a leader in the evolution of the computer business, and retains control of key strategic elements of the business. It contracts for everything else. The network integrator is the organization that holds the network of functioning units together, by negotiating contracts with each member, and often by providing the integrating information architecture, the brand name under which the products and services are sold, the overall integrating strategy for success in the marketplace, and sometimes technology and capital needed by network members.

A second example is Nike. The shoe manufacturer has positioned itself strategically within a network of complementary resources. Nike assembles capabilities through a coalition that includes production subcontractors in Asia, ad agencies, Web support, retail outlets, exclusive contracts with athletes, preferred contracts with professional teams and universities. Nike's advantage is based on superior orchestration of its position in the resource coalition.

In the book *Tomorrow's Organizations*, Jay Galbraith describes Benetton, the Italian fashion house.[21] Benetton contracts most of its manufacturing out to some 350 small firms, but buys the materials for all. Benetton now is the world's largest purchaser of wool thread and exercises considerable leverage in that market. As a networked organization, it is able to gain scale without mass. At the same time, being small and independent is a good thing when fast-moving, flexible responses are needed. Benetton's labor-intensive operations of sewing and packing are performed by firms of 15-25 employees, which collectively can handle the variety and flexibility needed in rapidly supplying fashion merchandise to a fickle market.

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[21] Mohrman, S.A., Galbraith, J.A., and Lawler, E.E. (1998). *Tomorrow's Organization: Crafting Winning Capabilities in a Dynamic World*. San Francisco, CA: Jossey-Bass, Inc. Publishers.

The governing mechanism that holds the network together is a market mechanism based on contracts and agreements, with each party negotiating a position that contributes to its success as a business. In some cases, network members are captive. For example, most Benetton manufacturing facilities and retail outlets do work only in service of the Benetton label. In other cases, network members also provide products and/or services directly to the market. Each network member exists within the governance system of its own organization and within the network governing structure that relies primarily on contracts and partnerships coordinated and integrated across the network. The network integrator influences the internal operations of its partners primarily through contractual agreements and providing services such as information technology applications as part of the contracts. In some cases, ownership structures and financial alliances overlap.

The underlying premise of the network is that although solid partnership agreements may exist and be binding for some period of time among network members, the network only exists as long as it is in the best interests of its members and its own overarching purpose. This gives each company flexibility in pursuing activities that advance its own capabilities and mission and allows network membership to grow and change through time as customer needs change. Typically, network organizations form in two different directions: process interdependence or resource coalitions.

Process Interdependence

Process interdependence networks form when interdependencies in business processes arise across organizational boundaries. Often, external specialists can carry out information-intensive business processes without loss of control. During the past few years, several specialist business-process firms have emerged in the areas of accounting, inventory control, customer service, call-centers, database analysis, telemarketing and logistics. Business process "outsourcing" will continue to increase as more specialist firms emerge and become integrated in organization networks.

For example, Kraft Foods is intertwining its marketing process with the data collection and analysis at ACNielsen, a leading information provider in the consumer packaged-goods industry. The early availability of marketing data through process integration between the two organizations allows Kraft Foods to respond to marketing trends quicker and more effectively than its competitors. Kraft has benefited by reconfiguring its marketing processes across organizational boundaries.

As a second example, National Semiconductor (NSC), a manufacturer of computer chips, entered an agreement in which FedEx manages its logistics operations. In the early 1990s, NSC realized a major driver of its operational inefficiency was its outmo d process for moving inventory. Since NSC could not achieve award-winning process levels of a log cs company without taking valuable resources away from product design and manufacture, it contracte ut its processes to FedEx. Through its link with FedEx, NSC has improved its process performance: its distribution costs have fallen from 2.6% to 1.9% of revenues.[22]

Resource Coalitions

Organizations increasingly are relying on external sources not only for support activities but also for critical resources. Positioning a firm within a broader network or coalition of resources helps drive competitive advantage. Some firms become not a portfolio of products or businesses, but portfolios of capabilities and relationships.

[22] Venkatraman, N., & Henderson, J.C. (1998). "Real Strategies for Virtual Organizing." *Sloan Management Review*, Fall: 33-48.

Amazon (the online Internet bookstore) has built a network by orchestrating affiliated sites as associates to serve as extended bookstores. The associates establish their own bookstores on their Web sites or place banners and logos to direct traffic to Amazon's site. In return, they receive a commission on books purchased through their referrals. For example, a search on the AltaVista online search engine triggers an opportunity to order books on the selected topic.

Implementation Approaches

In network organizations, formal communication is supplemented by a high degree of informal communication. Formal communication is noninteractive, impersonal and involves structured meetings. In contrast, informal communication is personal, peer-oriented and interactive, and involves media such as face-to-face meetings and e-mail. Furthermore, network organizations exhibit emergent structures that result from communication through information technologies that have little regard for traditional hierarchy.

Additionally, the coordination of complex networks requires sophisticated formal mechanisms. Network integrators often provide a core information technology system that enables all network members to communicate and that provides shared databases (such as inventory and order and customer information). Toyota, for example, is able to govern its supplier network because all are connected to an information system that immediately translates car orders into supplier orders and accounts-receivable information. All parties have access to the same information, which greatly facilitates interaction and trust and makes it difficult to determine where one company ends and another begins.[23]

Finally, as is true of the various co-governance approaches, network organizations need to be very good at creating contracts and other forms of agreements that enable coordinated activity even when network members are not hierarchically controlled by the same structure. For example, if a disagreement arises between Benetton and one of its network partners, the Benetton manager cannot fire anyone in the other firm or force the firm to do anything; the issues must be negotiated, which means disagreements can lead to endless discussion. Companies often minimize these negatives, however, by becoming skillful at the partnering process and setting up contracts and agreements. There also have to be formal boards or teams to ensure the various network members' work is co-planned and aligned and conflicts resolved.

Results

Network organizations are still new enough that efforts to measure their impact are just getting under way. There are, however, many notable example of companies, like Sun Microsystems and Nike, that have grown rapidly into large, successful competitors using the network model. They have experienced substantial benefits by not vertically integrating (like traditional firms that house all processes and functions under one roof) and by creating a stable network of partners and suppliers. The origin of these benefits seems to lie in the sharing of costs and skills, access to global markets and increased market responsiveness.[24] Network organizations allow relatively easy access to people in the know by making it easy to obtain information from experts, regardless of where they are located. Communications patterns evolve such that efficient use of this expertise can be made. Basically, each partner brings core competencies to the organization, building a stronger entity — a deviation from traditional governance approaches which relied on owning and controlling capabilities.

[23] Dess, G.G., Rasheed, A.M.A., McLaughlin, K.J., and Priem, R.L. (1995). "The New Corporate Architecture." *Academy of Management Executive*, 9(3): 7-17.
[24] Dess, et al., (1995).

As discussed by Galbraith, the future will see the development of more and more networked organizations.[25] Because they can create the advantages of a large organization without creating the large organization itself, these networks are an effective response to many changes taking place in the business environment particularly. Therefore, organizations are likely to prosper if they develop the capabilities associated with being an effective network member. Network organizations are relatively new, and so there is a great deal to be learned about making them even more effective, as well as about how their members should behave. Organizations that are fast learners are likely to have a competitive advantage when it comes to creating and being a part of a network organization.

Evidence compiled to date indicates the future success of network organizations seems to lie in establishing mechanisms for building trust and cohesion, reducing information loss, retaining organizational memory in the face of fluidity and developing an integrated information technology platform.[26] Possible determinants of network organization performance may include integration across sub-units, types of information being exchanged, and communication patterns and behaviors.[27]

[25] Moltman, et al. (1998)
[26] Venkatraman, N., and Henderson, J.C. (1998)
[27] Miles, R.E., & Snow, C.C. (1992). "Causes of Failure in Network Organizations." *California Management Review*, Summer 53-72.

FUTURE TRENDS

Future Trends in Corporate Boards

The changes already under way in the corporate boardroom offer a guide to potential trends in corporate board governance. There is likely to be a continuation of some trends and reaction against others. Some, but not all, of the key trends in private-sector governance have direct parallels with issues in public education.

Internationalization of Corporate Governance. Financial markets are already far more global than most boards. As investors can move their capital more quickly and seamlessly around the world, they are likely to demand assurances that their investments are protected. One of the key ways investors are seeking to do this is to encourage corporations to adopt U.S.-style governance mechanisms, e.g., open, audited financial reporting and boards that are appointed and accountable to the owners, rather than managers. These types of policies, for example, are a key part of the efforts to restore confidence in Asian economies and to attract investors to emerging economies such as Russia. Even well-established and healthier European corporations are increasingly attracted by the U.S.-style governance model and the access to capital that it brings, as witnessed by Daimler Chrysler's decision to list on the U.S. stock exchange.

Demands for More Stakeholder Representation. As companies become more global, a governance gap is developing. Multinational corporations are able to shift resources and employment around the world to wherever they can find the lowest costs and best value for money, while the public bodies that regulate them remain largely confined to individual nation states. This governance gap is likely to grow even wider if U.S.-style governance mechanisms become the accepted norm in global companies, making them answerable first and foremost to the shareholders. At some point, the downsizings and dislocations these global corporations cause are likely to cause such a public backlash that there will be calls for governance reforms to make corporations accountable to all stakeholders — communities and employees, as well as owners.

Such reforms, however, will require the difficult task of creating public institutions capable of matching the global scope of companies, institutions that far exceed the power of existing international economic organizations such as the World Trade Organization. If such a move toward more stakeholder accountability gains momentum, which is already occurring in European countries such as England and Germany, then it will bring private-sector governance much closer to education governance, where teachers and local communities wield influence in the governance process.

Increased Employee Ownership. As a much greater percentage of the value of corporations is contained in intangible assets, such as the knowledge that resides in the heads of employees, it becomes more difficult to separate ownership and employment.[28] What, for example, are owners purchasing when they buy a professional service firm or movie studio other than the talents of its people? This shift toward a knowledge-based economy, combined with the motivational benefits of linking individual rewards to organizational performance, is leading to a marked increase in employee ownership of U.S. corporations. United Airlines, Avis and UPS are some prominent examples. Along with substantial ownership stakes, employees in some cases are demanding board seats to ensure their interests are represented.

[28] Conger, J.A., Spreitzer, G.M., and Lawler, E.E. (1999). *Leader's Change Handbook: An Essential Guide To Setting Direction and Taking Action*. San Francisco, CA: Jossey-Bass, Inc. Publishers.

Mechanisms to Increase Managerial Accountability. As investors have more opportunities available around the globe, the pressure on companies to maintain or improve the returns to shareholders are likely to continue to intensify. Along with this will be greater pressure on boards to ensure managers are accountable. Further, this pressure is likely to advance the trends under way to tie senior executive and director pay to company performance and increase the use of evaluations of chief executives and boards. Not only is the quantity of formal evaluations likely to grow, but the quality also is likely to improve as more is learned about the process and more information forms are incorporated (e.g., greater input from outside interests). There is a close similarity between this greater pressure for managerial accountability on companies and the way in which concern about underperformance has sparked calls for reform of education governance.

Future Trends in TQM, EI and Reengineering Systems

A new view of what constitutes effective organizational design and management is developing. This new approach is not made up of employee involvement, total quality management or reengineering but rather of an integrated set of practices and structures that draws heavily from these three approaches. Research conducted at the Center for Effective Organizations indicates that the three approaches seem to reinforce one another, increasing the others' effectiveness. This shows up in the tendency for the adoption of any one of them to be associated with higher success ratings for the others. In addition, it suggests the most effective organizational change efforts are those able to integrate the practices commonly associated with employee involvement, TQM and reengineering.

If, as these results suggest, the most effective adoption of the three practices comes when they are integrated, organizations may be just beginning to design themselves in the most effective ways. Few organizations at this point have consistently adopted the key elements of all three approaches on an organizationwide basis. In fact, a good guess is that few organizations cover even 10% of their employees with an integrated package of these practices.[29]

Because of the relatively low use of multiple system change efforts, companies still gain competitive advantage by being early adopters not just of employee involvement, TQM or reengineering, but of an integrated approach that matches business strategy, management practices and change strategy. This is where competitive advantage in organizational improvement efforts lie in the future.

Thus, U.S. organizations seem to be heading toward a new logic of organizing that may ultimately lead to individuals and organizations thinking of employee involvement, total quality management and reengineering as historical programs. The individual "programs" may fade away, but such a scenario should not lead to the conclusion that these programs did not have an impact or that their ideas, practices and policies were not adopted. In many cases, the opposite is true — the programs have gone from being "new policies and practice" to standard operating procedures.

Future Trends in Team-Based Structures

In their review of future trends in work teams, C.B. Gibson and B.L. Kirkman argue teams will increasingly take on three new characteristics:[30]

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[29] Lawler, Mohrman and Ledford (1998).

[30] Gibson, C.B., and Kirkman, B.L. (1998). "Our Past, Present and Future in Teams: The Role of Human Resource Managers in Managing Team Performance." In A.I. Kraut and A.K. Korman (Eds.) *Changing Concepts and Practices for Human Resource Management: Contributions from Industrial Organizational Psychology*. San Francisco, CA: Jossey-Bass, Inc. Publishers.

Temporary teams. First, as environmental complexity continues to increase, temporary team structures will supplant more permanent work teams. As the forces outside organizations continue to change, the structures inside organizations will become more fluid. Rather than permanently assigning people to work teams, companies will shift their team composition as projects, problems or customers demand. Ad-hoc teams or project teams will be more prevalent, placing extraordinary demands on employees to be flexible and demonstrate their value to organizations through their team efforts. The challenge for managers will certainly involve compensation and evaluation issues for employees who may be constantly moving from one project team to another without a constant supervisor or team members with whom the employee has any long-term contact.

Globalization. Second, the use of multicultural teams (teams composed of members from different cultures) and globalized teams (teams composed of same-culture members in a variety of countries) is likely to rise as trade barriers continue to fall (for example, NAFTA and the European Union). National culture plays a strong role in determining employee attitudes and behavior. If a significant rise in these more culturally diverse teams occurs (and there is some evidence that it will), then managers must familiarize themselves with the cultures in which their organization operates. For example, if peer evaluations are used as part of the performance appraisal process on a multicultural team, managers must identify the key cultural characteristics that may serve as stumbling blocks to these evaluations. If globalized teams are used, it is likely that entirely different compensation systems will be needed, depending on the dominant cultural values of the areas in which an organization has business.

Virtuality. Finally, with more telecommuting and flex-time schedules, there will be less face-to-face time in work teams. In many organizations, traditional work teams are being supplemented by "virtual" teams whose members may seldom or never meet in person. Also referred to as "mobile," these teams have no geographic center. Team members work out of their homes, automobiles and clients' facilities, and communicate via e-mail, fax, telephone and videoconferencing. Face-to-face team meetings may take place only once per quarter. The challenge for managers is in integrating team members, building cohesive teams, and facilitating communication and information exchange without having team members together in one place.

Trends in Network Organizations

Research indicates that customers increasingly are considered active members of organizations.[31] Much of the interaction between customers and other parts of the organization is electronic and is used in product development cycles — often referred to as "electronic customer communities." These communities signal a power shift from manufacturers to customers: the communities are information-gathering and information-disseminating conduits. Innovations in information technology help to facilitate the process of integrating customers into organizational networks; previously, customers could not be linked together across time and space.

An example of a community with potential to develop into a product innovation network is the Harley Owners Group (HOG) – a Web site for Harley owners to share their stories and picture. This community does not overtly create new product sales, but does maintain an important link with core customers and enhance brand identity. A more developed example is Sony's Yaroze project in which end users are actively engaged in product development by design.

[31] Venkatraman and Henderson (1998)

CONCLUSION: ANALOGIES TO PUBLIC EDUCATION

Public schools face challenges of similar magnitude to those faced in the private sector that have resulted in massive restructuring and accompanying changes in governance. Schools must deal with the social challenges presented by a shifting population and the technical challenges of educating an increasingly diverse group of students for a much more demanding set of requirements in the 21st century. In addition, they have to face the economic challenges of accomplishing this without a large infusion of new funds. By applying approaches that have in many ways redefined the very nature of the firm, U.S. corporations are weathering the storms of global competition with goods from nations that have much lower wage structures. Despite threats to U.S. ascendancy in the last decade, U.S. firms still constitute perhaps the most robust economy in the world. Education policymakers must determine whether the approaches applied in the private sector are adaptable to help the public school arena remain robust as well. Indeed, there is already much related activity in public school systems.

Governance is a process that entails power and accountability. Governance procedures determine how and by whom decisions are made and what form of redress is available to various stakeholders. The five governance strategies described in this paper have actual or potential analogues in public education, although there are contextual differences that constrain the ways in which these approaches can be applied and which approaches are appropriate. Different approaches have been found to fit companies with different strategies and technologies, and the best design and governance approach must be tailored for each firm. In the private sector, many of the strategies reviewed here have been implemented in collaboration with union support. Approaches, however, cannot be copied lock, stock and barrel from one setting to another. This section addresses the applicability of these five strategies to public education, but should not be taken as endorsement of any particular approach.

Board Reform

In the private sector, the relationship between corporate boards and company management is being clarified and strengthened. Although boards are playing a more active role in establishing the framework for the corporation and ensuring that requirements of external stakeholders are addressed, this function is differentiated from running the company and making operational decisions. The board ensures excellent management is in place, there is a strategy and implementation plan in place, and monitors performance against goals.

Boards of education are, of course, the key governance mechanism for public school systems that links the schools to their communities. Both district and state boards of education provide an accountability route because they usually are elected officials expected to be responsive to community concerns. Together with school system administrators, the board manages the schools. An analogue to the kind of board reform that is occurring in the private sector would be a clarification of the roles and accountabilities of the school board and school district management.

School boards would assume a clearly defined policy and framework-setting role, and management would be responsible and accountable for the operational decisions required to carry out the policy and strategy. Management also would have the ability to make changes to the organization to better carry out its mission without board interference. This might involve the kinds of board development activities and performance monitoring discussed above, as well as a reconsideration of how boards are composed. Accountability might be better fostered if teacher unions and other stakeholders are represented on the board.

The above description is, of course, a simplification of the challenges faced. School districts, like companies, are subject to a host of regulations and constraints from other governmental bodies such as state and federal governments. They also, like many companies, have employees who are represented by various labor unions. Furthermore, they have communities that expect not only to receive excellent services but also to be able to influence how those services are defined and delivered. Currently, the school board is the keeper of many of these relationships and/or the route of redress. An analogy to the private sector would put the board in the role of ensuring external stakeholder requirements are adequately addressed while the responsibility for determining how to do this would lie with management.

A potential advantage of this approach would be to raise school management to the level of professional management and reduce the political nature of school decisionmaking. Goals and policies would be politically determined, and the school board would continue to be the major route through which the community influences these decisions. Operations, however, would be managed in such a way as to optimize application of resources to accomplish strategies and objectives. The focus of school management would be on introducing new approaches that better allow schools to carry out their mission and meet the needs of various stakeholders. The board would hold school management accountable for this, but would delegate to them the responsibility of engaging the various parties in making decisions about the organizational approaches required to implement strategies. The rest of the approaches described below are ways of doing this that have implications for governance and involvement of stakeholders.

Organizational Improvement

Under the rubric of improvement, a variety of approaches for improving the performance capabilities of organizations have been discussed. These approaches imply various degrees of change in governance. Although not explicitly addressed earlier in this document, one common route proposed for school improvement entails little change in the actual governance framework of power and accountability; rather, it entails becoming better at managing within current governance approaches. Developing improved management and professional skills, introducing and implementing new technical approaches to education (curricula, tools, methodologies), clarifying goals and objectives, implementing accountability and performance management systems that bolster review and reward processes, and improving communication systems are all possible without changing governance systems.

Private-sector experience has demonstrated, however, that performance gains are limited when management of traditional, hierarchical systems simply is improved. This happens in part because organizations have expensive staffs responsible for such areas as human resource practices, development and various technical processes. These staffs become disassociated from the employees who design or manufacture products and delivered services. By bolstering the bureaucracy, companies cause employees who "touch" customers and products to lose their motivation. Any organizational benefits were lost because the system and its work processes became fragmented, even at the line levels of operation. Individuals often had clearly delineated jobs and were not required to coordinate with one another; rather, managers and staff groups assumed responsibility for coordinating the work of a large number of individual contributors.

School systems have experienced all of the dysfunctions of the bureaucratic system: fragmentation, alienation of the "line worker" — the teacher — and inefficiency of processing and information flow. Experiments scattered throughout the country have introduced some of the decentralization and improvement processes that also are being used in the private sector. School-based management has been a widely employed approach to moving decisions to the school level. Many of these approaches have worked to establish new ways to involve parents and community firms in school governance.

Teacher teams are another approach tried, as are schools within schools. Both are efforts to address the issues of fragmentation of the education experience and to move governance and accountability into smaller units. Some schools have used various kinds of teams to get teachers involved in improving teaching and learning processes. Yet, in most school systems, the school and its departments have remained the core organizational and governance focus, particularly in secondary schools. In general, information technology has not been used to redesign work processes; to create flexible, small units; to take education to the customer at times and places convenient to the customer. Nor has technology provided widely distributed information or enabled coordination across various service providers so their work with particular students and groups of students inform one another.

Team-Based Structures and Mini-Business Units

In the private sector, firms have developed team-based organizations to address turbulent industry environments and rapid change in technological innovation. Similarly, high student mobility rates in some regions have caused great turbulence in schools, disrupting the ability of school districts to enact reforms or respond effectively to changing needs. In select regions, groups of elementary, middle and high schools have come together to form school "families." These families typically consist of a feeder pattern of elementary schools, one or more middle schools and one high school. By banding together, these schools seek to create a vehicle for organizing and focusing energy on education reform in an environment that supports one another. These stable learning communities work together to provide for all students a continuous and high-quality education from prekindergarten through 12th grade. For example, in the Los Angeles Annenberg Metropolitan Project (LAMP), school families were directed to do the following:[32]

- Decentralize control of resources and decisionmaking
- Sustain a strong sense of equity and inclusiveness among parents and other stakeholders
- Link professional development to the creation of stable learning communities
- Reallocate professional time in schools in ways that allow for educators within families to engage in ongoing conversations about curriculum, pedagogy and standards
- Create equitable opportunities for every student to engage in a broad, intellectually challenging curriculum
- Create small stable learning communities in which students know and are known by adults in the schools and in which students experience personalized teaching and learning
- Create public accountability by using and publicizing ongoing assessments of student and school performance.

Enacting these reforms requires school families to build capacity to work together as a team. Acting as a collective unit to create a stable learning community necessitates new organizational structures, new ways of sharing information and new ways of learning.

Preliminary results from the LAMP effort suggests the school family effort generated diverse activities, but some common strategies emerged.[33] School families created networks of teams similar to those described in the private sector. The families also learned how to solve problems and implement decisions using teams, demonstrating the kind of organizational learning that characterize independent sub-units and network organizations.

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[32] Wohlstetter, P., Smith, A., Stewart, T., and Griffin, N. (1998). *Team Work in School Families: Building Capacity for Reform*. Los Angeles, CA: Center on Educational Governance.
[33] Wohlstetter, et al. (1998).

Establishing Independent Sub-Units

In the private sector, independent sub-units are set up for purposes incompatible with existing units, either because they are intended to introduce fundamental innovation or to perform a piece of the business that has different market and technical requirements than the mainstream units. These sub-units run a governance gamut from being wholly governed by the company but through different governance methods, to being spun off and governed through market (contractual) mechanisms. This movement reflects a recognition that a particular integrated company cannot manage and do well all the tasks needed to be successful strategically and to make sure customers have access to the whole range of high-quality services and products.

Some school districts already have put similar approaches in place, such as alternative schools, experimental schools and charter schools established to meet the needs of particular groups of students or to establish an innovative model. Charter schools are the most extreme in terms of loosening the governance ties and even moving toward a contracting model. It is rare for school districts to break apart their operations, establish joint ventures or spin off parts of their services, and then reconnect with these new organizations to secure services contractually that once were provided internally. For example, one could conceive of a school district establishing a joint venture to provide education in the arts or languages not only to its students as part of the district's offerings, but also to the larger community in nontraditional forms. Greater use of approaches like this would be an acknowledgement that the hundreds of thousands of schools across the country cannot all become world class at all kinds of education services, and that students may benefit from exposure to specialist organizations for some purposes.

Networks

Network forms of organization are a natural outgrowth of the tendency to establish independent sub-units and recognize a particular organization cannot be world class in all aspects. Different kinds of activities are best housed in organizations designed to carry out that kind of activity. This approach can be a way for a school district to focus on its core education-providing services while contracting with other firms that specialize in areas such as food service or transportation provision. Such "outsourcing" arrangements are under way in some school districts.

In the core education arenas, one could see the evolution of specialized education units shared by different schools that contract with them, so that a school could put together a whole set of services through different contractual arrangements. In a particular region, this network of various providers might be maintained through an education development board, which provides overarching certification and contracting and planning processes. A community might have different organizations that specialize in science education, arts education, language disorders and so forth but provide the services in the school facility.

A number of art teachers from a specialized contract firm, for example, might come to different schools on different days, providing art services to whole classes or groups of students while their core subject teachers get together for planning and instructional design activities. Schools might provide a few core services, counseling and planning to make sure students are hooked up with required and elective offerings from members of the other network organizations, and with tracking and certification processes. In addition to the school, services might be offered in satellite facilities or right in the child's living room through electronic delivery systems. They might be offered in normal school hours or at alternative times.

Many of the approaches in this document might appear foreign to the concept of public schools and school districts. It should be remembered that merely 15 years ago many of these practices, which have become standard in the private sector, were not even on the corporate landscape. They have all been

driven by the need to provide high-quality services and products designed to meet the needs of diverse customers, in a convenient and cost-effective manner. The research conducted to date indicates there is much to be learned from the corporate lessons, leading one to be optimistic about a future in which the strategies developed in the private sector inform and are informed by emerging strategies in the public sector.

APPENDIX 1
SUMMARY OF GOVERNANCE STRATEGIES

STRATEGY	VALUES, GOALS & OBJECTIVES	CHANGE PROCESS	EVOLUTION OF STAKEHOLDERS	ANALOGY TO PUBLIC EDUCATION CONTEXT
#1 Reform of Corporate Board	Accountability; objective, independent voice	Minor incremental change	Incorporate external directors onto boards; boards act as strategic advisors	Improve efficiency of district-run system (school reform movement)
#2 Organizational Improvement	Bottom-up approach; process focus	Major incremental change	Employees involved in design; customers asked for input	School-site management; neighborhood-controlled schools
#3 Developing Team-based Structures	Supervision unnecessary; collective responsibility; power sharing	Major incremental change	Reduction of middle management; collectives make decisions	School families
#4 Establishing Independent Sub-units	Freedom from bureaucratic constraints; cultural overhaul	Discontinuous change	Independence from mainstream business but oversight from top management	Charter school districts
#5 Creating Networks	Market mechanisms; contractual relationships; organizations as nodes in a system	Radical change and development of new structures	Multistakeholder decision-making; permeable boundaries between internal and external stakeholders	Outsourcing

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APPENDIX 2
SUMMARY OF EXAMPLES

STRATEGY	COMPANY EXAMPLES	DESCRIPTION OF CHANGE	CHALLENGES	RESULTS
#1 Reform of Boards	• United Airlines • Motorola • Pfizer • Dayton Hudson • CompUSA	• Employee role on board • Separation of management and board roles • Develop, select and evaluate CEO • Crisis management • Evaluation of strategy implementation	• Resisting tendency for board to manage day-to-day • Understanding operations • Being proactive as opposed to reactive • Monitoring turbulent business environment	• Higher stock market return • Higher return on investment • Increases shareholder value • Increases sales and earnings • Aligns interests and efforts of managers, directors and owners
#2 Organizational Improvement	• Saturn • Xerox • Motorola • Hewlett-Packard • Proctor & Gamble	• Employee involvement • Total Quality Management • Process reengineering	• Identifying best design • Selecting change strategy • Overcoming resistance to change	• EI predicts sales, return on assets, investment, equity and total sales • TQM predicts return on sales, assets and equity • Re-engineering predicts return on sales, assets, equity and investments
#3 Developing Team-Based Structures	• Florida Power and Light • Hewlett-Packard • AAL • General Electric • Champion	• Develop parallel or project teams • Identify work teams • Share power in management teams	• May increase bureaucracy • Maintains links with functional departments • Requires organizational structures, systems and practices to support teams • Changes in power balance may be threatening	• Increase speed of response • Reduce costs • Increase quality • Increase employee satisfaction

APPENDIX B
SUMMARY OF EXAMPLES (CONTINUED)

STRATEGY	COMPANY EXAMPLES	DESCRIPTION OF CHANGE	CHALLENGES	RESULTS
#4 Establishing Independent Sub-units	• P&G • 3M • IBM • Charles Schwab • HP	• Establish greenfield sites • Spin off business units • Collaborate in joint ventures and alliances • Develop long-term supplier relationships	• Pressures for conformity • Identifying champion or sponsor • Building start-up resources • Integrating information systems • Learning to co-govern	• Productivity increases • Knowledge transfer • Reduce manufacturing costs • Gain strategic positioning
#5 Creating Networks	• Sun Microsystems • Benetton • Kraft • NSC • Nike • PacifiCare • Amazon	• Expand organizational boundaries to include external partners • Develop process interdependence • Establish resource coalitions	• Leads to potential loss of operational control among partners • Results in loss of strategic control over emerging technology • Requires new and difficult-to-acquire managerial skills	• Enables sharing of costs and skills • Enhances access to global markets and responsiveness to markets • Each partner brings core competencies to the organization, building a stronger entity

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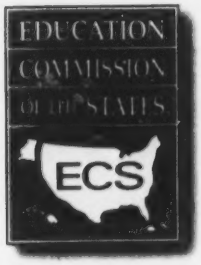

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